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**CITY OF WAVELAND, MISSISSIPPI
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2003**



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ANNUAL FINANCIAL REPORT
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INTRODUCTORY SECTION

**CITY OF WAVELAND, MISSISSIPPI
LISTING OF CITY OFFICIALS
AS OF SEPTEMBER 30, 2003**

ELECTED OFFICIALS

Mayor

Alderman – Ward 1

Alderman – Ward 2

Alderman – Ward 3

Alderman – Ward 4

John Longo

Keith Mitchell

Richard Geoffrey

Brian Schmitt

Santo Saucier

APPOINTED OFFICIALS

City Clerk

Police Chief

Fire Chief

Lisa Planchard

James Varnell

David Garcia

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

May 26, 2004

Honorable Mayor and Board of Aldermen
City of Waveland
Waveland, Mississippi

We have audited the accompanying general purpose financial statements of the City of Waveland, Mississippi, as of and for the year ended September 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Waveland, Mississippi's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City did not maintain an adequate inventory of or adequate subsidiary records documenting the existence, completeness, and valuation of assets accounted for in the General Fixed Asset Account Group. Due to the nature of the City's records, we were unable to satisfy ourselves as to the fair presentation of assets reported in the General Fixed Asset Account Group at \$8,819,300 as of September 30, 2003.

In our opinion, except for the effects of the matters discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Waveland, Mississippi, as of September 30, 2003, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated May 26, 2004, on our consideration of the City of Waveland, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group financial statements and supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Waveland, Mississippi. The accompanying schedule of expenditures of federal awards (Schedule I) is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and, in our opinion, except for the effects of the matters discussed in paragraph three, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC

Certified Public Accountants
Gulfport, Mississippi

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GENERAL PURPOSE FINANCIAL STATEMENTS

CITY OF WAVELAND, MISSISSIPPI
COMBINED BALANCE SHEET - ALL FUND TYPES
AND ACCOUNT GROUPS
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Totals	
	General	Special Revenue	Debt Service	Capital Projects	Fund Types	Fund Types	General	General	(Memorandum Only)	
					Enterprise	Trust and Agency	Fixed Assets	Long-Term Debt	2003	2002
ASSETS AND OTHER DEBITS										
ASSETS										
Cash	\$ 1,414,012	\$ 328,941	\$ 432,253	\$ 1,243	\$ 3,876,668	\$ 25,860	\$ -	\$ -	\$ 6,078,977	\$ 6,459,846
Investments, at cost	-	-	-	-	100,000	-	-	-	100,000	100,000
Receivables:										
Sales tax	157,780	-	-	-	-	-	-	-	157,780	158,303
Franchise taxes	63,736	-	-	-	-	-	-	-	63,736	70,240
Property taxes	7,676	3,322	2,709	-	-	-	-	-	13,707	72,465
Accounts, net of allowance for doubtful acco	-	-	-	-	291,907	-	-	-	291,907	242,135
Grants	88,448	237,634	-	-	-	-	-	-	326,082	38,753
Forfeits	-	9,243	-	-	-	-	-	-	9,243	-
Other	16,183	-	-	-	-	-	-	-	16,183	36,638
Due from other funds	-	-	-	-	-	-	-	-	-	118
Due from other governments	-	-	-	-	10,047	-	-	-	10,047	20,047
Inventory	-	-	-	-	21,907	-	-	-	21,907	28,115
Prepaid expenses	34,511	-	-	-	16,449	-	-	-	50,960	63,365
Restricted assets										
Cash	25,000	-	-	-	658,045	-	-	-	683,045	693,214
Fixed assets (net, where applicable, of accumulated depreciation)	-	-	-	-	4,460,902	-	8,819,300	-	13,280,202	11,879,802
Deferred charges	-	-	-	-	15,970	-	-	-	15,970	17,775
Other assets	-	2,716	-	-	-	-	-	-	2,716	3,669
OTHER DEBITS										
Amount available in debt service fund	-	-	-	-	-	-	-	434,962	434,962	308,665
Amount to be provided for retirement of general long-term obligations	-	-	-	-	-	-	-	758,655	758,655	1,039,550
Amount to be provided for compensated absences	-	-	-	-	-	-	-	49,200	49,200	55,253
Total assets and other debits	\$ 1,807,346	\$ 581,856	\$ 434,962	\$ 1,243	\$ 9,451,895	\$ 25,860	\$ 8,819,300	\$ 1,242,817	\$ 22,365,279	\$ 21,287,953

The accompanying notes are an integral part of these financial statements.

**CITY OF WAVELAND, MISSISSIPPI
COMBINED BALANCE SHEET - ALL FUND TYPES
AND ACCOUNT GROUPS
SEPTEMBER 30, 2003**

(With Comparative Totals for September 30, 2002)

	Governmental Fund Types				Proprietary	Fiduciary	Account Groups		Totals	
	General	Special	Debt	Capital	Fund Types	Fund Types	General	General	(Memorandum Only)	
		Revenue	Service	Projects	Enterprise	Trust and Agency	Fixed Assets	Long-Term Debt	2003	2002
LIABILITIES, FUND EQUITY AND OTHER CREDITS										
LIABILITIES										
Accounts payable	\$ 179,485	\$ 42,815	\$ -	\$ -	\$ 408,527	\$ -	\$ -	\$ -	\$ 630,827	\$ 229,614
Other accrued expenses	62,260	3,060	-	-	14,973	921	-	-	81,214	75,939
Due to other funds	-	-	-	-	-	-	-	-	-	118
Due to other governments	-	28,616	-	-	-	-	-	-	28,616	2,622
Payable from restricted assets										
Revenue bonds	-	-	-	-	71,395	-	-	-	71,395	68,040
Revenue bond interest	-	-	-	-	4,434	-	-	-	4,434	5,020
Meter deposits	-	-	-	-	244,480	-	-	-	244,480	234,330
General obligation bonds payable	-	-	-	-	-	-	-	1,001,000	1,001,000	1,110,000
Revenue bonds payable	-	-	-	-	1,296,295	-	-	-	1,296,295	1,367,690
Capital leases payable	-	-	-	-	-	-	-	192,617	192,617	238,215
Compensated absences	-	-	-	-	4,338	-	-	49,200	53,538	62,300
Deferred revenues	75,641	123,598	-	-	-	-	-	-	199,239	-
Total liabilities	317,386	198,089	-	-	2,044,442	921	-	1,242,817	3,803,655	3,393,888
FUND EQUITY AND OTHER CREDITS										
Contributed capital	-	-	-	-	3,987,160	-	-	-	3,987,160	3,987,160
Investment in general fixed assets	-	-	-	-	-	-	8,819,300	-	8,819,300	7,189,311
Retained earnings										
Reserved for capital projects	-	-	-	-	30,769	-	-	-	30,769	30,203
Reserved for revenue bond retirement	-	-	-	-	262,852	-	-	-	262,852	250,316
Unreserved	-	-	-	-	3,126,672	-	-	-	3,126,672	3,319,093
Fund balances										
Reserved for animal shelter	25,000	-	-	-	-	-	-	-	25,000	-
Reserved for debt service	-	-	434,962	-	-	-	-	-	434,962	308,665
Reserved for benefit payments	-	-	-	-	-	24,939	-	-	24,939	24,481
Reserved for capital projects	-	62,359	-	1,243	-	-	-	-	63,602	346,647
Undesignated	1,464,960	321,408	-	-	-	-	-	-	1,786,368	2,438,189
Total fund equity and other credits	1,489,960	383,767	434,962	1,243	7,407,453	24,939	8,819,300	-	18,561,624	17,894,065
Total liabilities, fund equity and other credits	\$ 1,807,346	\$ 581,856	\$ 434,962	\$ 1,243	\$ 9,451,895	\$ 25,860	\$ 8,819,300	\$ 1,242,817	\$ 22,365,279	\$ 21,287,953

The accompanying notes are an integral part of these financial statements.

CITY OF WAVELAND, MISSISSIPPI
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for the Year Ended September 30, 2002)

	Governmental Fund Types				Fiduciary Fund Type	Totals	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust Fund	(Memorandum Only)	
						2003	2002
REVENUES							
Taxes	\$ 566,712	\$ 290,738	\$ 237,633	\$ -	\$ -	\$ 1,095,083	\$ 907,276
Licenses and permits	332,830	-	-	-	-	332,830	317,547
Charges for services	271,163	3,529	-	-	-	274,692	272,192
Intergovernmental	2,757,633	774,621	-	-	-	3,532,254	2,401,237
Fines and forfeits	279,765	-	-	-	-	279,765	227,767
Donations	-	32,178	-	-	-	32,178	26,349
Miscellaneous	98,910	29,984	7,173	28	458	136,553	178,507
Total revenues	4,307,013	1,131,050	244,806	28	458	5,683,355	4,330,875
EXPENDITURES							
General government	1,412,651	-	-	-	-	1,412,651	645,705
Public safety	2,318,112	13,347	-	-	-	2,331,459	1,958,371
Public works	821,984	-	-	1,000	-	822,984	1,182,994
Health and welfare	134,416	-	-	-	-	134,416	136,273
Culture and recreation	-	1,509,645	-	-	-	1,509,645	467,705
Debt service							
Principal retirement	-	-	195,898	-	-	195,898	148,477
Interest charges and other	-	-	59,413	-	-	59,413	60,568
Total expenditures	4,687,163	1,522,992	255,311	1,000	-	6,466,466	4,600,093
Excess (deficiency) of revenues over expenditures	(380,150)	(391,942)	(10,505)	(972)	458	(783,111)	(269,218)
OTHER FINANCING SOURCES (USES)							
Debt proceeds	-	-	-	-	-	-	180,000
Transfers in	-	121	136,802	-	-	136,923	92,001
Transfers out	(96,983)	(39,940)	-	-	-	(136,923)	(92,001)
Total other financing sources (uses)	(96,983)	(39,819)	136,802	-	-	-	180,000
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(477,133)	(431,761)	126,297	(972)	458	(783,111)	(89,218)
Fund balances - October 1	1,967,093	815,528	308,665	2,215	24,481	3,117,982	3,207,200
Fund balances - September 30	\$ 1,489,960	\$ 383,767	\$ 434,962	\$ 1,243	\$ 24,939	\$ 2,334,871	\$ 3,117,982

The accompanying notes are an integral part of these financial statements.

CITY OF WAVELAND, MISSISSIPPI
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Non-GAAP Basis)
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES						
Taxes	\$ 553,667	\$ 587,890	\$ 34,223	\$ 279,580	\$ 304,616	\$ 25,036
Licenses and permits	329,237	340,402	11,165	-	-	-
Charges for services	270,300	271,163	863	3,000	3,529	529
Intergovernmental	2,834,999	2,787,566	(47,433)	496,451	402,295	(94,156)
Fines and forfeitures	260,000	280,337	20,337	43,057	23,134	(19,923)
Miscellaneous	113,275	117,065	3,790	11,800	10,756	(1,044)
Total revenues	4,361,478	4,384,423	22,945	833,888	744,330	(89,558)
EXPENDITURES						
General government						
Administrative						
Personnel	259,382	246,829	12,553	-	-	-
Supplies	28,000	28,209	(209)	-	-	-
Other services and charges	206,710	168,054	38,656	-	-	-
Capital outlay	762,652	653,318	109,334	-	-	-
Total	1,256,744	1,096,410	160,334	-	-	-
Judicial						
Personnel	111,317	109,794	1,523	-	-	-
Supplies	5,500	5,051	449	-	-	-
Other services and charges	13,250	13,250	-	-	-	-
Capital outlay	15,100	15,148	(48)	-	-	-
Total	145,167	143,243	1,924	-	-	-
Finance						
Personnel	75,167	75,105	62	-	-	-
Supplies	2,000	2,744	(744)	-	-	-
Capital outlay	2,283	2,283	-	-	-	-
Total	79,450	80,132	(682)	-	-	-
Total general government	1,481,361	1,319,785	161,576	-	-	-
Public safety						
Police						
Personnel	1,106,835	1,018,274	88,561	-	-	-
Supplies	86,800	87,082	(282)	-	-	-
Other services and charges	190,430	156,951	33,479	25,800	9,290	16,510
Capital outlay	90,069	82,858	7,211	4,250	2,497	1,753
Total	1,474,134	1,345,165	128,969	30,050	11,787	18,263
Fire						
Personnel	687,829	641,829	46,000	-	-	-
Supplies	38,800	36,604	2,196	-	-	-
Other services and charges	96,770	83,667	13,103	-	-	-
Capital outlay	79,769	75,269	4,500	-	-	-
Total	903,168	837,369	65,799	-	-	-
Inspections						
Personnel	101,580	101,398	182	-	-	-
Supplies	11,500	8,491	3,009	-	-	-
Other services and charges	13,050	7,996	5,054	-	-	-
Capital outlay	1,495	1,495	-	-	-	-
Total	127,625	119,380	8,245	-	-	-
Total public safety	2,504,927	2,301,914	203,013	30,050	11,787	18,263
Public works						
Streets						
Personnel	511,957	438,151	73,806	-	-	-
Supplies	36,300	35,891	409	-	-	-
Other services and charges	324,700	295,700	29,000	-	-	-
Capital outlay	81,800	49,307	32,493	-	-	-
Total public works	954,757	819,049	135,708	-	-	-

Debt Service Funds			Capital Projects Fund			Totals (Memorandum Only)		
Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
\$ 229,282	\$ 248,463	\$ 19,181	\$ -	\$ -	\$ -	\$ 1,062,529	\$ 1,140,969	\$ 78,440
-	-	-	-	-	-	329,237	340,402	11,165
-	-	-	-	-	-	273,300	274,692	1,392
-	-	-	-	-	-	3,331,450	3,189,861	(141,589)
-	-	-	-	-	-	303,057	303,471	414
7,200	7,173	(27)	24	28	4	132,299	135,022	2,723
236,482	255,636	19,154	24	28	4	5,431,872	5,384,417	(47,455)
-	-	-	-	-	-	259,382	246,829	12,553
-	-	-	-	-	-	28,000	28,209	(209)
-	-	-	-	-	-	206,710	168,054	38,656
-	-	-	-	-	-	762,652	653,318	109,334
-	-	-	-	-	-	1,256,744	1,096,410	160,334
-	-	-	-	-	-	111,317	109,794	1,523
-	-	-	-	-	-	5,500	5,051	449
-	-	-	-	-	-	13,250	13,250	-
-	-	-	-	-	-	15,100	15,148	(48)
-	-	-	-	-	-	145,167	143,243	1,924
-	-	-	-	-	-	75,167	75,105	62
-	-	-	-	-	-	2,000	2,744	(744)
-	-	-	-	-	-	2,283	2,283	-
-	-	-	-	-	-	79,450	80,132	(682)
-	-	-	-	-	-	1,481,361	1,319,785	161,576
-	-	-	-	-	-	1,106,835	1,018,274	88,561
-	-	-	-	-	-	86,800	87,082	(282)
-	-	-	-	-	-	216,230	166,241	49,989
-	-	-	-	-	-	94,319	85,355	8,964
-	-	-	-	-	-	1,504,184	1,356,952	147,232
-	-	-	-	-	-	687,829	641,829	46,000
-	-	-	-	-	-	38,800	36,604	2,196
-	-	-	-	-	-	96,770	83,667	13,103
-	-	-	-	-	-	79,769	75,269	4,500
-	-	-	-	-	-	903,168	837,369	65,799
-	-	-	-	-	-	101,580	101,398	182
-	-	-	-	-	-	11,500	8,491	3,009
-	-	-	-	-	-	13,050	7,996	5,054
-	-	-	-	-	-	1,495	1,495	-
-	-	-	-	-	-	127,625	119,380	8,245
-	-	-	-	-	-	2,534,977	2,313,701	221,276
-	-	-	-	-	-	511,957	438,151	73,806
-	-	-	-	-	-	36,300	35,891	409
-	-	-	1,000	1,000	-	325,700	296,700	29,000
-	-	-	-	-	-	81,800	49,307	32,493
-	-	-	1,000	1,000	-	955,757	820,049	135,708

The accompanying notes are an integral part of these financial statements.

CITY OF WAVELAND, MISSISSIPPI
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (Non-GAAP Basis)
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
EXPENDITURES (Continued)						
Health and welfare						
Animal control						
Personnel	98,955	93,049	5,906	-	-	-
Supplies	25,200	24,921	279	-	-	-
Other services and charges	16,630	12,892	3,738	-	-	-
Capital outlay	25,000	425	24,575	-	-	-
Total	165,785	131,287	34,498	-	-	-
Senior citizens						
Other services and charges	8,250	8,378	(128)	-	-	-
Total health and welfare	174,035	139,665	34,370	-	-	-
Culture and recreation						
General						
Supplies	-	-	-	3,000	2,442	558
Other services and charges	-	-	-	123,650	105,216	18,434
Capital outlay	-	-	-	456,205	390,781	65,424
Total	-	-	-	582,855	498,439	84,416
Hospitality house						
Personnel	-	-	-	10,110	9,678	432
Supplies	-	-	-	300	-	300
Other services and charges	-	-	-	900	769	131
Capital outlay	-	-	-	1,800	893	907
Total	-	-	-	13,110	11,340	1,770
Municipal pier						
Personnel	-	-	-	104,431	96,468	7,963
Supplies	-	-	-	4,800	3,863	937
Other services and charges	-	-	-	6,700	4,089	2,611
Capital outlay	-	-	-	712,987	587,699	125,288
Total	-	-	-	828,918	692,119	136,799
Total culture and recreation	-	-	-	1,424,883	1,201,898	222,985
Debt service						
Principal retirement	-	-	-	-	-	-
Interest and other	-	-	-	-	-	-
Total debt service	-	-	-	-	-	-
Total expenditures	5,115,080	4,580,413	534,667	1,454,933	1,213,685	241,248
Excess (deficiency) of revenues over expenditures	(753,602)	(195,990)	557,612	(621,045)	(469,355)	151,690
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	121	121
Transfers out	(96,862)	(96,983)	(121)	(39,940)	(39,940)	-
Total	(96,862)	(96,983)	(121)	(39,940)	(39,819)	121
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	<u>\$ (850,464)</u>	(292,973)	<u>\$ 557,491</u>	<u>\$ (660,985)</u>	(509,174)	<u>\$ 151,811</u>
Adjustments to conform with GAAP - unrecorded receivables, prepaids, payables, and deferred revenue		(184,160)			81,328	
Excess (deficiency) of revenues and other financing sources over expenditures and other uses - GAAP basis		<u>\$ (477,133)</u>			<u>\$ (427,846)</u>	

Debt Service Funds			Capital Projects Fund			Totals (Memorandum Only)		
Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
-	-	-	-	-	-	98,955	93,049	5,906
-	-	-	-	-	-	25,200	24,921	279
-	-	-	-	-	-	16,630	12,892	3,738
-	-	-	-	-	-	25,000	425	24,575
-	-	-	-	-	-	165,785	131,287	34,498
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	8,250	8,378	(128)
-	-	-	-	-	-	174,035	139,665	34,370
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	3,000	2,442	558
-	-	-	-	-	-	123,650	105,216	18,434
-	-	-	-	-	-	456,205	390,781	65,424
-	-	-	-	-	-	582,855	498,439	84,416
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	10,110	9,678	432
-	-	-	-	-	-	300	-	300
-	-	-	-	-	-	900	769	131
-	-	-	-	-	-	1,800	893	907
-	-	-	-	-	-	13,110	11,340	1,770
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	104,431	96,468	7,963
-	-	-	-	-	-	4,800	3,863	937
-	-	-	-	-	-	6,700	4,089	2,611
-	-	-	-	-	-	712,987	587,699	125,288
-	-	-	-	-	-	828,918	692,119	136,799
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	1,424,883	1,201,898	222,985
195,898	195,898	-	-	-	-	195,898	195,898	-
59,413	59,413	-	-	-	-	59,413	59,413	-
255,311	255,311	-	-	-	-	255,311	255,311	-
255,311	255,311	-	1,000	1,000	-	6,826,324	6,050,409	775,915
(18,829)	325	19,154	(976)	(972)	4	(1,394,452)	(665,992)	728,460
136,802	136,802	-	-	-	-	136,802	136,923	121
-	-	-	-	-	-	(136,802)	(136,923)	(121)
136,802	136,802	-	-	-	-	-	-	-
<u>\$ 117,973</u>	<u>137,127</u>	<u>\$ 19,154</u>	<u>\$ (976)</u>	<u>(972)</u>	<u>\$ 4</u>	<u>\$ (1,394,452)</u>	<u>(665,992)</u>	<u>\$ 728,460</u>
	<u>(10,830)</u>			<u>-</u>			<u>(113,662)</u>	
	<u>\$ 126,297</u>			<u>\$ (972)</u>			<u>\$ (779,654)</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF WAVELAND, MISSISSIPPI
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for the Year Ended September 30, 2002)

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Charges for services	\$ 2,622,948	\$ 2,508,523
Miscellaneous	<u>24,694</u>	<u>19,322</u>
Total operating revenues	<u>2,647,642</u>	<u>2,527,845</u>
OPERATING EXPENSES		
Personnel services	498,218	463,830
Contractual services	1,081,284	636,593
Materials and supplies	214,287	206,683
Other services and charges	400,717	342,709
Gas purchased	263,304	225,421
Depreciation	372,630	388,106
Amortization	<u>1,806</u>	<u>1,806</u>
Total operating expenses	<u>2,832,246</u>	<u>2,265,148</u>
Operating income (loss)	<u>(184,604)</u>	<u>262,697</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	83,132	124,945
Interest expense	<u>(77,847)</u>	<u>(70,948)</u>
Total nonoperating revenues (expenses)	<u>5,285</u>	<u>53,997</u>
Net income (loss)	(179,319)	316,694
Retained earnings - October 1	<u>3,599,612</u>	<u>3,282,918</u>
Retained earnings - September 30	<u><u>\$ 3,420,293</u></u>	<u><u>\$ 3,599,612</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF WAVELAND, MISSISSIPPI
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for the Year Ended September 30, 2002)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,607,946	\$ 2,546,112
Cash paid to suppliers	(1,652,845)	(1,426,264)
Cash paid to employees	(503,919)	(453,152)
	<u>451,182</u>	<u>666,696</u>
Net cash provided by operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of assets	10,000	10,000
Acquisition and construction of capital assets	(143,042)	(124,279)
Principal paid on bonds payable	(68,040)	(71,443)
Interest paid on bonds payable	(78,433)	(75,285)
	<u>(279,515)</u>	<u>(261,007)</u>
Net cash used by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	83,206	124,945
	<u>83,206</u>	<u>124,945</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	254,873	530,634
Cash and cash equivalents - October 1	4,279,840	3,749,206
Cash and cash equivalents - September 30	<u>\$ 4,534,713</u>	<u>\$ 4,279,840</u>

CITY OF WAVELAND, MISSISSIPPI
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for the Year Ended September 30, 2002)

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED BY OPERATING		
ACTIVITIES		
Operating income (loss)	\$ (184,604)	\$ 262,697
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	372,630	388,106
Amortization	1,806	1,806
Bad debt expense	15,018	8,892
(Increase) decrease in assets:		
Accounts receivable	(64,864)	(6,135)
Inventory	6,208	(26,692)
Prepaid expenses	(4,248)	(12,201)
Increase (decrease) in liabilities:		
Accounts payable	304,711	24,747
Accrued salaries	(2,992)	3,631
Compensated absences payable	(2,709)	7,047
Customer deposits	10,150	15,510
Accrued sales taxes payable	76	(712)
Net cash provided by operating activities	<u>\$ 451,182</u>	<u>\$ 666,696</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. Introduction

The City of Waveland, Mississippi (City), was incorporated March 18, 1888, under the laws of the State of Mississippi. The City operates under a Mayor-Board form of government. The following services are provided by the City: Public Safety (Police, Fire and Protection/Inspection), Street Maintenance, Garbage Collection, Water and Sewer, Gas Service, Social and Recreational, Public Improvements, Planning and Zoning, and General Administrative Services.

The City complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities, and as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the notes is organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended September 30, 2003.

II. Basis of Presentation

(A) Financial Reporting Entity

The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships). Component units are reported as either "blended" or "discretely disclosed." Blended component units, although legally separate entities are, in substance, part of a City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. Based upon application of these criteria, the following component units are included in the City's general-purpose financial statements.

Blended Component Units

It was determined that the Retired Senior Volunteer Program of Hancock County (RSVP) and the Bay-Waveland Narcotics Task Force (NTF) are both component units. The financial statements of RSVP and NTF are blended into the City's primary government because the governing body is substantially the same for both. Neither RSVP nor NTF issues separately audited financial statements.

Discretely Presented Component Units

The City has no discretely presented component units. During its evaluation of potential component units, management identified two joint ventures (the Southern Regional Wastewater Management District and the Hancock County Solid Waste Authority).

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share costs, risks and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific service recipients. See Note 12 for additional information describing related organizations not included in the City's reporting entity.

(B) Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three broad fund categories as follows:

Governmental Fund Types

Governmental funds are those funds through which the City finances most of its municipal services. Governmental funds are accounted for using the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period. The City's governmental funds are as follows:

General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs which are not being financed by proprietary funds.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital improvements and facilities (other than those financed by proprietary funds, special assessment funds, and trust funds).

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives of which are a determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet. Proprietary fund equity is segregated into contributed capital and retained earnings. The City's proprietary fund is as follows:

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Types (continued)

Enterprise Fund – The enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City reports its utility operations (i.e., water, gas and solid waste collection services) as an Enterprise Fund.

Fiduciary Fund Types

Trust and Agency Funds - The trust and agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. These include expendable trust funds and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

Account groups are used to establish accounting control and accountability for the City's general fixed assets and long-term liabilities that are not accounted for in the respective governmental funds. The account groups are not "funds". They are concerned only with the measurement of financial position, not with the measurement of results of operations. The City's account groups are as follows:

General Fixed Assets Account Group - The City has not adequately maintained a record of general fixed assets (i.e., those fixed assets not accounted for in proprietary funds) over the years. Assets not properly documented were assigned a nominal value and recorded along with all other recorded general fixed assets which are reported in the general fixed assets account group as required by generally accepted accounting principles.

General Long-Term Debt Account Group – The general long-term debt account group is established to account for all long-term debt and certain other liabilities of the City that are not specific liabilities of the proprietary funds.

(C) Total Columns (Memorandum Only)

Total columns on the general-purpose financial statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. Data in these columns do not present information that reflects financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

III. Basis of Accounting and Measurement Focus

(A) Modified Accrual Basis of Accounting

All governmental fund types and the agency funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected but unsettled at year-end. A two-month availability period is used for revenue recognition for most other governmental fund revenues.

Revenues not considered available are recorded as deferred revenues, if material. Also, under modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest, which are reported as expenditures in the year due. Liabilities that will not be normally liquidated with expendable available financial resources are recorded in the general long-term debt account group.

Those revenues susceptible to accrual are franchise taxes, sales taxes collected and held by the State at year-end on behalf of the City, grants and interest revenues. Licenses and permits, certain charges for services, fines and forfeits and miscellaneous other revenues are recorded as revenues when received in cash because they are generally not measurable or available until actually received.

Disbursements for inventory type items are considered expenditures at the time of purchase rather than at the time the items are used. Disbursements for capital items within governmental funds are considered expenditures when purchased and no depreciation is taken.

(B) Accrual Basis of Accounting

The accrual basis of accounting is used by the proprietary funds. Under this method, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses, including depreciation, are recognized in the period incurred, if measurable. Unbilled utility service receivables are recorded at year-end. Revenues from non-exchange transactions such as grants and contributions are recognized in the year in which all eligibility requirements have been satisfied.

(C) Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

IV. Assets, Liabilities and Equity

(A) Cash and Investments

The City's cash and cash equivalents are primarily considered to be cash on hand and amounts held in demand deposits. For purposes of the statement of cash flows, short-term investments held in proprietary funds with a maturity date within three months of the date acquired by the City, if any, are considered cash equivalents.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(A) Cash and Investments (Continued)

State statutes authorize the City to invest in (1) direct obligations of the United States government to the payment of which the full faith and credit of the United States government is pledged, (2) certificates of deposit when insured or secured by acceptable collateral and (3) obligations of the State of Mississippi; or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court. Investments, if any, are recorded at cost, which approximates market value.

(B) Receivables

All trade receivables are shown net of an allowance for uncollectibles. An allowance has been provided in the utility enterprise fund for estimated uncollectible utility charges. The allowance is based on historical collection experience and other relevant circumstances.

(C) Short-Term Interfund Receivables/Payables

Numerous interfund transactions occur during the normal course of operations of the City. Disbursements made by one fund which are properly chargeable to another fund result in the creation of interfund receivables and payables which are classified on the balance sheet as "due to/from other funds." A cash transfer between the funds normally settles this type of transaction. All other interfund transactions are accounted for as either an operating transfer or a residual equity transfer. A residual equity transfer represents a transfer of the residual fund balance of a discontinued fund to another fund or a nonrecurring or non-routine transfer of equity between funds. Operating transfers are all legally authorized transfers that are not classified as residual equity transfers.

(D) Advances To Other Funds

Transactions between funds that are representative of lending/borrowing arrangements are recorded as advances. The current portion of such advances is referred to as "due to/from other funds." The noncurrent portion of interfund loans is recorded as "advances to/from other funds." Advances between funds are offset by a fund balance reserve account, in applicable governmental funds, to indicate that they do not constitute "expendable available financial resources" and, therefore, are not available for appropriation.

(E) Prepaid Items

Payments made to vendors for services that will benefit periods beyond September 30, 2003, are recorded as prepaid items.

(F) Inventories

The City's Utility Fund operation has been required to maintain an inventory of stored natural gas with its supplier. Such gas inventory has been valued at cost using the first-in/first-out (FIFO) method.

The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(G) Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The "revenue bond cushion" account is used to report resources set aside to subsidize potential deficiencies from the enterprise fund's operation that could adversely affect debt service payments. The required reserve should represent a sum sufficient to pay the estimated cost of operating and maintaining the combined water, sewer, and gas system in good repair and working order for one month. The "revenue bond debt service" account is used to segregate resources accumulated for debt service payments over the next twelve months. The "revenue bond depreciation" account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements. The "contingency" account is established to pay for the cost of unforeseen contingencies arising in the operations and maintenance, improvements, or extensions of the utility system in the event that insufficient funds are available from operating revenues or any of the other reserves previously noted.

The restricted asset section of the utility fund balance sheet also contains customer deposits subject to refund. Obligations to be satisfied with restricted assets are included in the balance sheet under the heading "payable from restricted assets".

Restricted cash is also recorded in the general fund for cash donated to the City specifically for the benefit of the animal shelter.

(H) General Fixed Assets

General fixed assets have been acquired for general governmental purposes of the City as a whole. Assets purchased or constructed are recorded as expenditures in the governmental fund types of the City and are capitalized in the general fixed assets account group. All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are recorded at estimated fair market value at the time received. Prior to September 30, 1981, the City had not maintained a record of its general fixed assets. On that date, the cost of all assets (excluding equipment) owned by the City was estimated by City personnel. These estimates along with the actual cost of items acquired since September 30, 1981, make up the City's General Fixed Asset Account Group as reported on the balance sheet. However, the City does not maintain adequate subsidiary records of its general fixed assets sufficient to permit application of audit procedures necessary to test the existence and valuation of such assets. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

The City has elected not to report public domain or infrastructure fixed assets that are immovable and of value only to the City government. Such assets consist of certain improvements, other than buildings, including roads, curbs and gutters, streets, sidewalks and lighting systems. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording such assets.

(I) Property, Plant and Equipment

Property, plant and equipment associated with the activities of proprietary funds are recorded as assets of those funds, and are stated at historical cost if purchased, or at fair market value at date of gift if donated. Assets purchased or constructed by non-enterprise funds and contributed to the enterprise fund are recorded at historical cost. Depreciation has been provided over the estimated useful lives using the straight-line method. The following estimated useful lives for proprietary fund assets are used to compute depreciation:

CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) Property, Plant and Equipment (Continued)

<u>Asset</u>	<u>Useful Life</u>
Distribution system and sewer systems	10 - 50 years
Machinery and equipment	3 - 10 years
Vehicles	4 - 5 years
Office furniture and equipment	3 - 10 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed.

(J) Compensated Absences

The City's policy allows all employees to accumulate unused vacation and sick leave. Full-time employees are granted vacation from 5 to 10 days per year depending on the employee's length of service. Employees may not carry forward any unused vacation. All non-administrative employees may also accumulate unused compensatory time (comp time). Retiring and terminating employees are paid for all unused vacation and unused comp time not exceeding limits established by the employee handbook. Amounts not expected to be liquidated with expendable available financial resources are recorded in the general long-term debt account group for governmental funds and as a liability in the enterprise fund.

The compensated absences liability was computed using the specific identification method whereby the actual number of vacation hours and compensatory hours are multiplied by the employee's hourly rate at September 30, 2003. The resulting liability is then increased to include social security and retirement contributions that the City is required to pay upon liquidation of the liability.

(K) Long-Term Obligations

The City reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by the proprietary fund are reported as liabilities in the utility fund.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as an other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For the proprietary fund type, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amounts from refundings. Issuance costs are reported as deferred charges.

(L) Claims and Judgments

Losses resulting from claims and judgments are estimated in accordance with Financial Accounting Standards Board Statement No. 5. The liability for such losses, if any, is recorded in the general long-term debt account group.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(M) Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. Designations of fund balance represent tentative management plans that are subject to change. The proprietary fund contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or other funds.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

The procedures used by the City in establishing the budgetary data recorded in the general purpose financial statements are as follows:

1. Prior to August 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year beginning October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. No later than September 15, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all governmental and proprietary fund types.
5. Budgets are adopted on a cash basis as required by State statute. All budgeted amounts presented in the accompanying general-purpose financial statements are as originally adopted or as amended by the Board of Aldermen. Accordingly, actual figures have also been presented on a cash basis.
6. The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require approval of the Board of Aldermen. The legal level of budgetary control is the department level. The City amended its original budget for each fund type, as follows:

	Original Budget	Increase (Decrease)	Amended Budget
Revenues and Other Sources			
General fund	\$ 4,539,473	\$ (177,995)	\$ 4,361,478
Special revenue funds	918,301	(84,413)	833,888
Debt service funds	367,776	5,508	373,284
Capital projects fund	24	-	24
Enterprise fund	<u>2,575,712</u>	<u>(25,460)</u>	<u>2,550,252</u>
Total revenues	8,401,286	(282,360)	8,118,926
Appropriations from fund equity	<u>2,186,065</u>	<u>75,553</u>	<u>2,261,618</u>
Total revenues and appropriations from fund equity	<u>\$ 10,587,351</u>	<u>\$ (206,807)</u>	<u>\$ 10,380,544</u>

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgetary Data (Continued)

	Original Budget	Increase (Decrease)	Amended Budget
Expenditures and Other Uses			
General fund	\$ 5,085,275	\$ 126,767	\$ 5,212,042
Special revenue funds	1,244,055	250,818	1,494,873
Debt service funds	263,635	(8,324)	255,311
Capital projects fund	1,000	-	1,000
Enterprise fund	<u>3,889,245</u>	<u>(589,900)</u>	<u>3,299,345</u>
Total expenditures	10,483,210	(220,639)	10,262,571
Appropriations to fund equity	<u>104,141</u>	<u>13,832</u>	<u>117,973</u>
Total expenditures and appropriations to fund equity	<u>\$ 10,587,351</u>	<u>\$ (206,807)</u>	<u>\$ 10,380,544</u>

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Non-GAAP Basis) for the Governmental Fund Types, presents comparisons of legally adopted budgets with actual data on the budgetary basis. Since accounting principles applied for purposes of developing data on the budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of timing differences in the excess (deficiency) of revenues and other sources over expenditures and other uses for the year ended September 30, 2003 is as follows:

	General Fund	Debt Service Funds	Special Revenue Funds *	Capital Projects Fund
Excess (deficiency) of revenues and other sources over expenditures and other uses, budgetary basis	<u>\$ (292,973)</u>	<u>\$ 137,127</u>	<u>\$ (509,174)</u>	<u>\$ (972)</u>
Adjustments to convert receivables	(1,101)	(10,830)	222,264	-
Adjustments to convert prepaid expenses	(14,195)	-	(1,555)	-
Adjustments to convert payables	(84,526)	-	(16,326)	-
Adjustments to convert accrued salaries	(8,697)	-	543	-
Adjustments to convert deferred revenues	<u>(75,641)</u>	<u>-</u>	<u>(123,598)</u>	<u>-</u>
Net adjustments	<u>(184,160)</u>	<u>(10,830)</u>	<u>81,328</u>	<u>-</u>
GAAP basis	<u>\$ (477,133)</u>	<u>\$ 126,297</u>	<u>\$ (427,846)</u>	<u>\$ (972)</u>

* Does not include the blended component unit RSVP because its budget is not adopted in the City's budget.

The City's actual expenditures exceeded the final amended budgeted expenditure amounts by \$1,411 in total for various line items in general fund departments, as illustrated in Exhibit C of the general purpose financial statements. Actual expenditures for the general fund in total did not exceed the final amended budgeted total.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 3: REVENUES

(A) Property Tax Revenues

The City levies a tax on real and personal property based on the assessed value of property as compiled by the Hancock County tax assessor from information extracted from the County assessment tax rolls. The taxes on real property attach as an enforceable lien on the property as of January 1. Taxes on real and personal property are levied by the Board of Aldermen at the first regular meeting in September. The City's tax assessment roll is then approved by the Board after a series of public hearings to receive citizens' objections. Such taxes are billed and collected by the County.

In accordance with Mississippi Code of 1972, as amended for code section 27-39-321, the Board may levy taxes in any amount for general revenue purposes and general improvements. However, taxes collected for the current year are limited to an increase of not more than 10% over receipts for any one of the preceding three years. For purposes of the computation, taxes collected in the current year resulting from property added to the tax assessment roll are excluded from the computation.

The rates are expressed in terms of mills (i.e. ten mills equal one cent). The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt and other purposes for the year ended September 30, 2003, was 22.625 mills or \$22.62 per \$1,000 of assessed valuation. A summary of the assessed valuations and tax levies of the City for the year ended September 30, 2003 have been provided below. The tax levies have been shown comparative with the previous year for informational purposes.

The assessed valuations of the City for the year ended September 30, 2003 are as follows:

Real property	\$ 43,409,056
Personal property	2,811,213
Public utilities	1,663,540
Automobiles	<u>6,990,612</u>
Totals	<u>\$ 54,874,421</u>

The tax levies for the City for the years ended September 30, 2003, 2002 and 2001 are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
General fund	11.495	11.495	11.495
Special revenue funds:			
Recreation	3.630	3.630	3.630
Library	2.500	2.500	2.500
Debt service fund	<u>5.000</u>	<u>5.000</u>	<u>5.000</u>
Total levy	<u>22.625</u>	<u>22.625</u>	<u>22.625</u>

Property tax revenue reported as taxes in the general purpose financial statements is accrued at year-end to the extent that it is measurable and estimated to become available to finance current operations. Real property taxes are recognized as revenue when received because most delinquent real property taxes are collected by selling real property for taxes, together with all fees, penalties, and damages, accruing until the date of sale, before the close of the fiscal year. The remaining amount of real property not sold for taxes at the tax sale is considered immaterial; therefore, no end of year delinquent taxes receivable is recorded. The amount of delinquent personal property taxes unpaid at year-end is also considered immaterial.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 3: REVENUES (Continued)

(B) Sales Tax Revenues

The State levies a 7% sales tax on retail sales and remits 18.5% of the amount collected (within the corporate boundaries of the City of Waveland) back to the City monthly. Intergovernmental revenue reported in the general fund includes \$1,852,419 of sales tax revenue.

(C) Grant Revenue

Revenues from federal, state and other grants, which fund specific City expenditures, are recognized at the time of the specific expenditure.

(D) Management Fees

The City's utility fund pays a management fee to the general fund to cover various costs such as administrative salaries, insurance, occupancy costs, etc. Those fees totaled \$130,000 for the year ended September 30, 2003, and have been included in "charges for services" revenue on the general fund and in "contractual services" expenditures on the utility fund.

NOTE 4: CASH AND INVESTMENTS

(A) Cash

A summary of cash and cash equivalents as of September 30, 2003 follows:

<u>Fund Type</u>	<u>Cash on Hand</u>	<u>Checking and Savings Accounts</u>	<u>Total</u>
General	\$ 300	\$ 1,438,712	\$ 1,439,012
Special Revenue	40	328,901	328,941
Debt Service	-	432,253	432,253
Capital Projects	-	1,243	1,243
Enterprise	650	4,534,063	4,534,713
Fiduciary	-	25,860	25,860
Total cash and cash equivalents	<u>\$ 990</u>	<u>\$ 6,761,032</u>	<u>\$ 6,762,022</u>

The City maintained the following restricted cash as of September 30, 2003, included in above:

General Fund	
Restricted for animal shelter	\$ 25,000
Enterprise Fund	
Restricted for USDA Rural Development Project	30,769
Restricted for customer deposits	288,595
Restricted for bond debt service	31,187
Restricted for bond cushion	188,406
Restricted for bond contingency	59,400
Restricted for bond depreciation	<u>59,688</u>
Total restricted cash – enterprise fund	<u>658,045</u>
Total restricted cash	<u>\$ 683,045</u>

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 4: CASH AND INVESTMENTS (Continued)

(A) Cash

Mississippi statutes allow municipalities to select depositories on the basis of competitive bid. Depositories must be covered by FDIC. The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 of the Mississippi Code. Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation. By using this multiple financial institution collateral pool, all of the City's deposits at September 30, 2003 fall into the credit risk category of "insured or collateralized" with securities held by the entity or by its agent in the entity's name.

As of September 30, 2003, deposits (included restricted deposits) are as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	\$ 6,937,178	\$ 6,761,032

(B) Investments

Mississippi municipalities may invest surplus funds in certificates of deposit with qualified depositories and in bonds and direct obligations of the United States of America; or the State of Mississippi; or any county, municipality or school district of the State of Mississippi which have been approved by a reputable bond attorney or have been validated by the decree of the chancery court.

At various times during the year ended September 30, 2003, the City invested excess funds in certificates of deposit at area banks. Investments made by the City included on the balance sheet are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the categories described as follows:

Category 1 Insured or registered securities held by the City or its component units.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

Investments, categorized by level of risk, are as follows:

<u>Security Type</u>	<u>Category</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Certificate of deposit	X			\$ 100,000	\$ 100,000

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 5: RECEIVABLES

The combined balance sheet of the City includes the following receivables at September 30, 2003:

	<u>General Fund</u>
Sales tax	\$ 157,780
Franchise taxes	63,736
Ad valorem taxes	7,676
Grants	88,448
Other	<u>16,183</u>
Total receivables	<u>\$ 333,823</u>
	<u>Enterprise Fund</u>
Accounts receivable	
Utility charges billed but uncollected	\$ 304,642
Unbilled utility charges	<u>54,816</u>
Less: allowance for uncollectibles	(<u>67,551</u>)
Net total receivable	<u>\$ 291,907</u>

NOTE 6: INTERFUND TRANSFERS

The following transfers were made between funds during the year ended September 30, 2003:

	<u>Transfers To Other Funds</u>	<u>Transfers From Other Funds</u>
<u>General Fund</u>		
Short Term Loan Fund	\$ 96,862	\$ -
NTF Fund	<u>121</u>	<u>-</u>
Total General Fund	<u>96,983</u>	<u>-</u>
<u>Library Fund</u>		
Short Term Loan Fund	<u>39,940</u>	<u>-</u>
<u>NTF Fund</u>		
General Fund	<u>-</u>	<u>121</u>
<u>Short Term Loan Fund</u>		
General Fund	<u>-</u>	<u>136,802</u>
Totals	<u>\$ 136,923</u>	<u>\$ 136,923</u>

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 7: FIXED ASSETS

A summary of changes in general fixed assets is as follows:

	Balance 10/01/02	Additions	Deletions	Balance 9/30/03
Land	\$ 763,604	\$ 36,400	\$ -	\$ 800,004
Buildings	1,915,275	455,786	-	2,371,061
Improvements other than buildings	1,682,678	-	-	1,682,678
Machinery, equipment, and vehicles	2,296,220	190,312	-	2,486,532
Construction in progress	<u>531,534</u>	<u>1,064,348</u>	<u>(116,857)</u>	<u>1,479,025</u>
Total	<u>\$ 7,189,311</u>	<u>\$ 1,746,846</u>	<u>\$ (116,857)</u>	<u>\$ 8,819,300</u>

Items under capital lease in the general fixed asset account group total \$386,904 at September 30, 2003.

Construction in progress in the general fixed asset account group consists primarily of engineering, construction, and miscellaneous costs related to the renovations to City Hall and the civic center; tidelands improvements; and the Wal-Mart project.

The following is a summary of fixed assets of the proprietary fund types at September 30, 2003:

	Balance 10/01/02	Additions	Deletions	Balance 9/30/03
Land	\$ 76,182	\$ -	\$ -	\$ 76,182
Buildings	27,712	-	-	27,712
Distribution system	2,084,427	-	-	2,084,427
Sewer system	6,665,341	-	-	6,665,341
Water tanks	887,083	-	-	887,083
Vehicles and equipment	1,015,748	93,974	-	1,109,722
Construction in progress	<u>11,850</u>	<u>49,067</u>	<u>-</u>	<u>60,917</u>
Total fixed assets	10,768,343	<u>\$ 143,041</u>	<u>\$ -</u>	10,911,384
Less accumulated depreciation	<u>6,077,852</u>			<u>6,450,482</u>
Net fixed assets	<u>\$ 4,690,491</u>			<u>\$ 4,460,902</u>

Depreciation expense aggregating \$372,630 has been charged as a period cost in the current fiscal year.

Construction in progress consists of surveying expenses related to a water line expansion project and construction costs related to a public works building.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 8: LONG-TERM DEBT

(A) General Long-Term Debt Account Group

The following changes occurred in liabilities reported in the General Long-Term Debt Account Group for the year ended September 30, 2003:

	Balance at 10/01/02	New Issues	Payments	Balance at 9/30/03
General obligation bonds	\$ 1,110,000	\$ -	\$(109,000)	\$ 1,001,000
Capital leases	238,215	41,642	(87,240)	192,617
Compensated absences	<u>55,253</u>	<u>-</u>	<u>(6,053)</u>	<u>49,200</u>
Total general obligation liabilities	<u>\$ 1,403,468</u>	<u>\$ 41,642</u>	<u>\$(202,293)</u>	<u>\$ 1,242,817</u>

(1) General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

General obligation bonds generally are issued as serial bonds with certain amounts of principal maturing each year.

The general obligation bonds outstanding as of September 30, 2003 are as follows:

<u>Debt Issue</u>	<u>Original Amount</u>	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Outstanding Amount</u>
1996 Series	\$ 1,250,000	11/1/96	4.875%	\$ 855,000
2002 Series	180,000	8/5/02	3.300%	<u>146,000</u>
				<u>\$ 1,001,000</u>

The annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year(s) Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 110,000	\$ 44,671	\$ 154,671
2005	116,000	39,738	155,738
2006	122,000	34,528	156,528
2007	128,000	29,042	157,042
2008	95,000	23,278	118,278
2009-2011	<u>430,000</u>	<u>43,144</u>	<u>473,144</u>
Totals	<u>\$ 1,001,000</u>	<u>\$ 214,401</u>	<u>\$ 1,215,401</u>

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 8: LONG-TERM DEBT (Continued)

(A) General Long-Term Debt Account Group (Continued)

(2) General Capital Lease Obligations

The City has entered into various lease agreements as lessee for financing the acquisition of vehicles and certain small equipment needs. Those lease agreements qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The general capital lease obligations outstanding as of September 30, 2003 are as follows:

Description	Original Amount	Issue Date	Effective Interest Rate	Outstanding Present Value
Public safety – vehicles	\$ 105,598	1/2001	5.39%	\$ 12,273
Public safety – fire trucks	239,664	7/2001	4.64%	143,132
Public safety – police vehicles	<u>41,642</u>	5/2003	3.24%	<u>37,212</u>
	<u>\$ 386,904</u>			<u>\$ 192,617</u>

The following is a schedule of future minimum lease payments under capital leases and present value of net minimum payments at September 30, 2003:

Year Ending September 30	Total
2004	\$ 81,008
2005	68,271
2006	<u>54,488</u>
Total minimum lease payments	203,767
Less: amount representing interest	<u>(11,150)</u>
Present value of future minimum lease payments	<u>\$ 192,617</u>

(B) Enterprise Fund Obligations

The following changes occurred in long-term debt liabilities reported in the enterprise fund for the year ended September 30, 2003:

	Revenue Bonds
Balance, October 1, 2002	\$ 1,435,730
New issues	-
Payments	<u>(68,040)</u>
Balance, September 30, 2003	<u>\$ 1,367,690</u>

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 8: LONG-TERM DEBT (Continued)

(B) Enterprise Fund Obligations (continued)

(1) Revenue Bonds

Revenue bonds are bonds for which the City pledges income derived from the acquired or constructed assets to pay debt service.

The revenue bonds outstanding as of September 30, 2003 are as follows:

Description	Issue Amount	Date	Interest Rate	Outstanding Amount
1972 Sewer System Revenue Bonds	\$ 775,000	7/1/72	5.38%	\$ 196,000
1992 United States Department of Agriculture (USDA) – Rural Development (formerly known as Farmers Home Administration) Combined Water, Gas, and Sewer System Revenue Bonds	<u>1,350,200</u>	12/19/92	5.50%	<u>1,171,690</u>
Total Water and Sewer Revenue Bonds	<u>\$ 2,125,200</u>			<u>\$ 1,367,690</u>

The annual bonded debt service requirements to maturity for the revenue bonds are as follows:

Year(s) Ending September 30	Principal	Interest	Total
2004	\$ 71,395	\$ 74,712	\$ 146,107
2005	74,828	70,807	145,635
2006	78,341	66,713	145,054
2007	81,940	62,428	144,368
2008	31,629	57,944	89,573
2009-2013	187,005	260,857	447,862
2014-2018	246,043	201,819	447,862
2019-2023	323,719	124,142	447,861
2024-2028	<u>272,790</u>	<u>27,833</u>	<u>300,623</u>
Totals	<u>\$ 1,367,690</u>	<u>\$ 947,255</u>	<u>\$ 2,314,945</u>

The City's Utility System Revenue Bonds contain a number of limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, etc. At September 30, 2003, the City was in compliance with all such limitations and restrictions.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 9: UNEMPLOYMENT COMPENSATION FUND

In lieu of making payments to the Mississippi Employment Security Commission (MESC), the City makes deposits into a bank account designated for unemployment compensation of amount equal to 2% of the first \$6,000 of covered employee wages paid in the preceding calendar year. Unemployment claims filed with the State are reimbursed 100% by the City. At September 30, 2003, the City's unemployment escrow account was sufficiently funded.

NOTE 10: COMMITMENTS AND CONTINGENCIES

(A) Litigation

The City is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the City. The amount of contingent liability, if any, that the City could be obligated for cannot reasonably be determined.

(B) Grants and Awards

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally federal and state governments. Any disallowed expenses, including amounts already collected, might constitute a liability of the applicable funds. The City does not believe any contingent liabilities are material.

(C) Under-Billing by Southern Regional Wastewater Management District

The Southern Regional Wastewater Management District (District) has not completed its audit for fiscal year 2003 at this time. Because the City pays the District on a cost reimbursement basis, over/under-billings result from any difference in the amounts the City actually paid for fiscal year 2003 and the allocation to the City for its portion of District operation and maintenance costs. Under-billings of the City related to fiscal year 2003 have been estimated based on preliminary financial information, and will be added to monthly charges for fiscal year 2004 as needed to adjust for fiscal year 2003 differences. The estimated under-billing of \$190,686 has been included as a payable and related expense for the fiscal year ended 2003.

(D) Construction Contracts

As of September 30, 2003, the City had entered into various construction contracts that were not completed at September 30, 2003. The total amount of construction contracts in progress as of September 30, 2003 approximated \$871,000, of which approximately \$42,000 was remaining. The contracts are primarily funded by federal and state grants.

NOTE 11: RISK MANAGEMENT

The City is covered for significant losses through commercial insurance carriers except for the following, which are covered through self-insurance risk pools:

(A) Self Insurance – Worker's Compensation Fund

The City is one of approximately 255 members in the Mississippi Municipal Worker's Compensation Group, Inc. This non-profit corporation is a self-insurance worker's compensation fund organized under the non-profit laws of the State of Mississippi. The group is self-insured under statutory workers compensation protection. Members are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 11: RISK MANAGEMENT (Continued)

(B) Self Insurance – Liability Fund

The City is one of approximately 245 members in the Mississippi Municipal Liability Plan. The Plan is a private non-profit corporation organized under the laws of the State of Mississippi. The plan provides liability and tort claims insurance for its members according to limits established by the Mississippi Tort Claims Act. The plan is totally self-insured with claims and expenses paid out of the premiums and the members are jointly and severally liable for any claims and expenditures beyond the premium base. The possibility of additional liability exists, but that amount, if any cannot be determined.

NOTE 12: JOINT VENTURES

(A) Southern Regional Wastewater Management District

The City contracts with the Southern Regional Wastewater Management District (District) whereby the District treats and disposes of the City's wastewater in compliance with water quality standards established by the Mississippi Air and Water Pollution Control Act and the Federal Water Pollution Control Act.

The District provides for the operation and maintenance of the sewer treatment plant on a cost reimbursement basis. Pursuant to the terms of the agreement, the City is required to pay monthly costs of operations and maintenance directly associated with the treatment facilities and to share in the construction costs of the treatment facility. The costs associated with this contract total \$766,857 for the year ended September 30, 2003 and are recorded as contractual services in the statement of revenues, expenses and changes in retained earnings.

The District began leasing the City's sewer treatment plant on January 1, 1983, at a monthly rent of \$1,206. The lease will terminate on January 1, 2025. Lease revenue is included as miscellaneous revenue in the statement of revenues, expenses and retained earnings. Future minimum lease payments are as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2004	\$ 14,472
2005	14,472
2006	14,472
2007	14,472
2008	14,472
Thereafter	<u>235,170</u>
Total minimum lease payments	<u>\$ 307,530</u>

The City's obligation to pay operational costs of the District is joint and several with the obligations of all other public agencies similarly contracting with the District, including the City of Bay St. Louis and Hancock County. Whenever any public agency shall default in the payment to the District of its respective payment, the District may adjust the contract sums of the remaining public agencies that are not in default so as to increase their contract sums by a proportional amount. Accordingly, the City is jointly and severally liable for all the liabilities of the District. The District is classified as a joint venture between the City of Waveland and the other members. The District's financial statements as of and for the year ended September 30, 2003 were incomplete at the time of this report. Financial statements, when completed, can be obtained from the District's administrative office on Gulfside Road in Waveland, Mississippi or by calling (228) 467-3702.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 12: JOINT VENTURES (Continued)

(B) Hancock County Solid Waste Authority

The City provides for pickup and disposal of garbage and trash through a solid waste contract with the Hancock County Solid Waste Authority. The Authority was formed as an interlocal joint venture with the City of Waveland and Hancock County in fiscal year 1994. During the year ended September 30, 2003, the City paid \$184,427 for solid waste services, which are reported as contractual services on the statement of revenues, expenses and changes in retained earnings. The City is jointly and severally liable for all of the liabilities of the Authority.

The following is a synopsis of the Authority's financial statements as of and for the year ended June 30, 2003.

BALANCE SHEET

ASSETS

Current assets	\$ 453,808
Total assets	<u>\$ 453,808</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Current, unrestricted	\$ 157,260
Total liabilities	<u>\$ 157,260</u>

FUND EQUITY

	<u>296,548</u>
Total liabilities and fund equity	<u>\$ 453,808</u>

STATEMENT OF REVENUES AND EXPENSES

Operating revenues	\$ 1,944,717
Operating expenses	(1,900,903)
Non-operating revenues	<u>3,347</u>
Net income	<u>\$ 47,161</u>

NOTE 13: RETIREMENT PLANS

Public Employees' Retirement System

The City participates in a retirement system administered by the Public Employees' Retirement System of Mississippi (PERS). The system is a defined benefit plan and includes a multi-employer, cost-sharing pension plan as described below:

Plan Description and Provisions

Substantially all of the City's full-time employees participate in PERS, a multi-employer, cost-sharing, defined benefit public employee pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 13: RETIREMENT PLANS (Continued)

Public Employees' Retirement System (continued)

Description of Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the years ending September 30, 2003, 2002 and 2001 were \$239,294, \$222,422, and \$206,216, respectively, equal to the required contributions for each year.

Deferred Compensation Plan

The City, through PERS, offers its employees a voluntary deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Assets of the plan are in trust for the exclusive benefit of participants and their beneficiaries. The requirements of IRC Section 457 (g) prescribes that the City does not own the amounts deferred by employees, including the related income on those amounts. Additionally, the City does not have fiduciary accountability for the plan. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on plan assets, are not included in the City's financial statements. The amount of assets held in trust for the City as of September 30, 2003 totaled \$48,672.

NOTE 14: SUBSEQUENT EVENTS

Subsequent to September 30, 2003, the following events occurred:

Grants

Additional Tidelands grant funding in the amount of \$195,821 was awarded to the City from the Department of Marine Resources, to be provided on a reimbursement basis.

The City was also notified of its approval for a grant from the Federal Emergency Management Administration under the Assistance to Firefighters Grant Program in the amount of \$130,095, with a 10% local match of \$14,455. The funds are to be used primarily for the purchase of equipment.

Annexation

The City is currently in the process of pursuing annexation of an area of Hancock County, Mississippi. A court date for the trial related to annexation has been set for November 29, 2004. In preparation for these annexation proceedings, the City has approved a contract with Urban Planning Consultants, Inc. for the preparation of a comprehensive plan for the City, at a cost not to exceed \$45,000. It is not yet clear what legal and consulting expenses might be incurred as a result of the annexation effort.

Settlement Proceeds

Subsequent to year-end, the City settled with CSX railroad regarding expenses that occurred as a result of a train derailment in the year ended September 30, 2003. The settlement of \$65,000 was received by the City in March, 2004.

**CITY OF WAVELAND, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2003**

NOTE 14: SUBSEQUENT EVENTS (Continued)

Capital Lease of Vehicles

The City has approved the capital lease acquisition of five new police vehicles at a total cost of \$103,450. The thirty-six month lease is through Hancock Bank at an annual interest rate of 2.77%.

General Long-Term Debt

The City approved a resolution authorizing the issuance of general obligation bonds in the principal amount not to exceed \$5,300,000 to raise money for refunding all outstanding maturities of the 1996 series of general obligation bonds. No debt had actually been issued as of the date of this report.

Resignation of Alderman

Subsequent to year-end, Ward I Alderman Keith Mitchell resigned from office, effective June 30, 2004. The City will be required to hold a special election to fill the occupancy. The expenses related to this election have not yet been estimated.

NOTE 15: NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The City is required to implement this standard for the fiscal year ending September 30, 2004. The City has not yet determined the full impact that adoption of GASB Statement 34 will have on its financial statements.

**COMBINING, INDIVIDUAL FUND AND ACCOUNT
GROUP STATEMENTS**

GENERAL FUND

The General Fund is used to account for sources and uses of financial resources applicable to the general operations of the City of Waveland, Mississippi which are not required legally or by sound financial management to be accounted for in another fund.

CITY OF WAVELAND, MISSISSIPPI
GENERAL FUND
BALANCE SHEET
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash	\$ 1,414,012	\$ 1,733,396
Receivables:		
Sales taxes	157,780	158,303
Franchise taxes	63,736	70,240
Ad valorem taxes	7,676	41,724
Grants	88,448	28,018
Other	16,183	36,639
Prepaid expenses	34,511	48,706
Due from other funds	-	118
Restricted cash	<u>25,000</u>	<u>-</u>
Total assets	<u><u>\$ 1,807,346</u></u>	<u><u>\$ 2,117,144</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 179,485	\$ 96,489
Accrued salaries	62,260	53,562
Deferred revenues	<u>75,641</u>	<u>-</u>
Total liabilities	<u>317,386</u>	<u>150,051</u>
FUND BALANCE		
Reserved for animal shelter	25,000	-
Unreserved		
Undesignated	<u>1,464,960</u>	<u>1,967,093</u>
Total fund balance	<u>1,489,960</u>	<u>1,967,093</u>
Total liabilities and fund balance	<u><u>\$ 1,807,346</u></u>	<u><u>\$ 2,117,144</u></u>

See Independent Auditors' Report.

**CITY OF WAVELAND, MISSISSIPPI
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)**

	<u>2003</u>	<u>2002</u>
REVENUES		
Taxes	\$ 566,712	\$ 471,741
Licenses and permits	332,830	317,547
Intergovernmental	2,757,633	2,144,543
Fines and forfeits	279,765	227,767
Charges for services	271,163	252,800
Miscellaneous	98,910	136,767
Total revenues	<u>4,307,013</u>	<u>3,551,165</u>
EXPENDITURES		
General government	1,412,651	645,705
Public safety	2,318,112	1,953,461
Public works	821,984	851,818
Health and welfare	134,416	136,273
Total expenditures	<u>4,687,163</u>	<u>3,587,257</u>
Deficiency of revenues over expenditures	<u>(380,150)</u>	<u>(36,092)</u>
OTHER FINANCING SOURCES (USES)		
Transfers out	<u>(96,983)</u>	<u>(92,001)</u>
Total other financing sources (uses)	<u>(96,983)</u>	<u>(92,001)</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses	<u>(477,133)</u>	<u>(128,093)</u>
Fund balance - October 1	<u>1,967,093</u>	<u>2,095,186</u>
Fund balance - September 30	<u><u>\$ 1,489,960</u></u>	<u><u>\$ 1,967,093</u></u>

See Independent Auditors' Report.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

CITY OF WAVELAND, MISSISSIPPI
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	Recreation Fund	Library Fund	Bay-Waveland NTF	RSVP	Totals (Memorandum Only)	
					2003	2002
ASSETS						
Cash	\$ 252,027	\$ 31,357	\$ 41,208	\$ 4,349	\$ 328,941	\$ 816,999
Receivables:						
Grants receivable	197,874	39,760	-	-	237,634	10,735
Taxes receivable	1,967	1,355	-	-	3,322	17,200
Forfeits receivable	-	-	9,243	-	9,243	-
Prepaid expenses	-	-	-	-	-	2,458
Other assets	-	-	-	2,716	2,716	3,669
Total assets	<u>\$ 451,868</u>	<u>\$ 72,472</u>	<u>\$ 50,451</u>	<u>\$ 7,065</u>	<u>\$ 581,856</u>	<u>\$ 851,061</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 40,993	\$ -	\$ -	\$ 1,822	\$ 42,815	\$ 29,309
Due to other governments	-	-	28,616	-	28,616	2,622
Accrued salaries	3,060	-	-	-	3,060	3,602
Deferred revenues	83,838	39,760	-	-	123,598	-
Total liabilities	<u>127,891</u>	<u>39,760</u>	<u>28,616</u>	<u>1,822</u>	<u>198,089</u>	<u>35,533</u>
FUND BALANCES						
Reserved for capital projects	62,359	-	-	-	62,359	344,432
Unreserved						
Undesignated	<u>261,618</u>	<u>32,712</u>	<u>21,835</u>	<u>5,243</u>	<u>321,408</u>	<u>471,096</u>
Total fund balances	<u>323,977</u>	<u>32,712</u>	<u>21,835</u>	<u>5,243</u>	<u>383,767</u>	<u>815,528</u>
Total liabilities and fund balances	<u>\$ 451,868</u>	<u>\$ 72,472</u>	<u>\$ 50,451</u>	<u>\$ 7,065</u>	<u>\$ 581,856</u>	<u>\$ 851,061</u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	Recreation Fund	Library Fund	Bay-Waveland NTF	RSVP	Totals (Memorandum Only)	
					2003	2002
REVENUES						
Taxes	\$ 172,514	\$ 118,224	\$ -	\$ -	\$ 290,738	\$ 240,146
Intergovernmental	458,427	223,509	32,379	60,306	774,621	256,694
Charges for services	3,529	-	-	-	3,529	19,392
Donations	-	-	-	32,178	32,178	26,349
Miscellaneous	8,228	2,466	61	19,229	29,984	29,467
Total revenues	642,698	344,199	32,440	111,713	1,131,050	572,048
EXPENDITURES						
Public Safety	-	-	13,347	-	13,347	4,910
Culture and recreation	930,584	463,433	-	115,628	1,509,645	467,705
Total expenditures	930,584	463,433	13,347	115,628	1,522,992	472,615
Excess (deficiency) of revenues over expenditures	(287,886)	(119,234)	19,093	(3,915)	(391,942)	99,433
OTHER FINANCING SOURCES						
Debt proceeds	-	-	-	-	-	180,000
Transfers in	-	-	121	-	121	-
Transfers out	-	(39,940)	-	-	(39,940)	-
Total other financing sources (uses)	-	(39,940)	121	-	(39,819)	180,000
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(287,886)	(159,174)	19,214	(3,915)	(431,761)	279,433
Fund balances - October 1	611,863	191,886	2,621	9,158	815,528	536,095
Fund balances - September 30	\$ 323,977	\$ 32,712	\$ 21,835	\$ 5,243	\$ 383,767	\$ 815,528

See Independent Auditors' Report.

DEBT SERVICE FUNDS

The Debt Service Funds are used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources when the City of Waveland, Mississippi is obligated in some manner for the payment.

CITY OF WAVELAND, MISSISSIPPI
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	City Bond and Interest Fund	Totals (Memorandum Only)	
		2003	2002
ASSETS			
Cash	\$ 432,253	\$ 432,253	\$ 295,125
Taxes receivable	2,709	2,709	13,540
Total assets	<u>\$ 434,962</u>	<u>\$ 434,962</u>	<u>\$ 308,665</u>
LIABILITIES AND FUND BALANCE			
FUND BALANCE			
Reserved for debt service	<u>\$ 434,962</u>	<u>\$ 434,962</u>	<u>\$ 308,665</u>
Total liabilities and fund balance	<u>\$ 434,962</u>	<u>\$ 434,962</u>	<u>\$ 308,665</u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	City Bond and Interest Fund	Short-Term Loan Fund	Totals (Memorandum Only)	
			2003	2002
REVENUES				
Taxes	\$ 237,633	\$ -	\$ 237,633	\$ 195,389
Intergovernmental	-	-	-	-
Miscellaneous	7,173	-	7,173	9,048
Total revenues	244,806	-	244,806	204,437
EXPENDITURES				
Debt service				
Principal retirement	75,000	120,898	195,898	148,477
Interest charges	43,509	15,904	59,413	60,568
Total expenditures	118,509	136,802	255,311	209,045
Excess (deficiency) of revenues over expenditures	126,297	(136,802)	(10,505)	(4,608)
OTHER FINANCING SOURCES				
Transfers in	-	136,802	136,802	92,001
Excess of revenues and other financing sources over expenditures	126,297	-	126,297	87,393
Fund balance - October 1	308,665	-	308,665	221,272
Fund balance - September 30	\$ 434,962	\$ -	\$ 434,962	\$ 308,665

See Independent Auditors' Report.

CAPITAL PROJECTS FUND

The Capital Projects Fund is used to account for the acquisition and construction of major capital facilities other than those financed by the enterprise fund.

CITY OF WAVELAND, MISSISSIPPI
CAPITAL PROJECTS FUND
BALANCE SHEET
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash	\$ <u>1,243</u>	\$ <u>2,215</u>
Total assets	<u>\$ 1,243</u>	<u>\$ 2,215</u>
 LIABILITIES AND FUND BALANCES		
FUND BALANCES		
Reserved for capital projects	\$ <u>1,243</u>	\$ <u>2,215</u>
Total liabilities and fund balances	<u>\$ 1,243</u>	<u>\$ 2,215</u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
REVENUES		
Miscellaneous	<u>\$ 28</u>	<u>\$ 2,483</u>
EXPENDITURES		
Capital outlay	<u>1,000</u>	<u>331,176</u>
Deficiency of revenues over expenditures	<u>(972)</u>	<u>(328,693)</u>
Fund balances - October 1	<u>2,215</u>	<u>330,908</u>
Fund balances - September 30	<u><u>\$ 1,243</u></u>	<u><u>\$ 2,215</u></u>

See Independent Auditors' Report.

ENTERPRISE FUND

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the Board is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the Board has decided that periodic determination of net income is appropriate for accountability purposes.

CITY OF WAVELAND, MISSISSIPPI
ENTERPRISE FUND
BALANCE SHEET
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash	\$ 3,876,668	\$ 3,586,626
Investments	100,000	100,000
Receivables		
Accounts, net	291,907	242,135
Due from other governments	10,047	20,047
Inventory	21,907	28,115
Prepaid expenses	16,449	12,201
	<u>4,316,978</u>	<u>3,989,124</u>
Total unrestricted current assets		
RESTRICTED ASSETS		
Cash:		
USDA Rural Development Project	30,769	30,203
Customer deposits	288,595	339,635
Revenue bond debt service account	31,187	30,927
Revenue bond cushion account	188,406	180,253
Revenue bond contingency account	59,400	55,956
Revenue bond depreciation account	59,688	56,240
	<u>658,045</u>	<u>693,214</u>
Total restricted assets		
PROPERTY, PLANT AND EQUIPMENT		
Land	76,182	76,182
Buildings	27,712	27,712
Water tanks	887,083	887,083
Pumps, distribution system, mains, etc.	2,084,427	2,084,427
Collection mains and lift stations	5,199,821	5,199,821
Treatment plant	1,465,520	1,465,520
Trucks and equipment	936,906	851,781
Computers	74,587	65,737
Office furniture and equipment	98,230	98,230
Construction in progress	60,917	11,850
Total property, plant and equipment	<u>10,911,385</u>	<u>10,768,343</u>
Less: accumulated depreciation	<u>6,450,483</u>	<u>6,077,852</u>
	<u>4,460,902</u>	<u>4,690,491</u>
Net property, plant and equipment		
OTHER ASSETS		
Unamortized bond issue expense	15,970	17,775
	<u>15,970</u>	<u>17,775</u>
Total assets	<u>\$ 9,451,895</u>	<u>\$ 9,390,604</u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
ENTERPRISE FUND
BALANCE SHEET
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

SCHEDULE 5-A
(Continued)

	<u>2003</u>	<u>2002</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
(Payable from current assets)		
Accounts payable	\$ 408,527	\$ 103,816
Accrued salaries	14,897	17,889
Other accrued expenses	76	-
Total current liabilities payable from current assets	<u>423,500</u>	<u>121,705</u>
(Payable from restricted assets)		
Bonds payable	71,395	68,040
Accrued revenue bond interest payable	4,434	5,020
Customer deposits	244,480	234,330
Total current liabilities payable from restricted assets	<u>320,309</u>	<u>307,390</u>
LONG-TERM LIABILITIES		
Compensated absences payable	4,338	7,047
Revenue bonds payable	1,296,295	1,367,690
Total long-term liabilities	<u>1,300,633</u>	<u>1,374,737</u>
Total liabilities	<u>2,044,442</u>	<u>1,803,832</u>
FUND EQUITY		
Contributed capital		
Municipality	337,000	337,000
Water and gas system	10,000	10,000
Federal government	3,606,484	3,606,484
Lafitte, Inc.	15,801	15,801
Bayou Caddy, Inc.	6,563	6,563
State of Mississippi	5,612	5,612
Gas line renovation project	5,700	5,700
Total contributed capital	<u>3,987,160</u>	<u>3,987,160</u>
Retained earnings:		
Reserved for capital projects	30,769	30,203
Reserved for bond debt service	262,852	250,316
Unreserved	3,126,672	3,319,093
Total retained earnings	<u>3,420,293</u>	<u>3,599,612</u>
Total fund equity	<u>7,407,453</u>	<u>7,586,772</u>
Total liabilities and fund equity	<u>\$ 9,451,895</u>	<u>\$ 9,390,604</u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
OPERATING REVENUES		
Charges for services	\$ 2,622,948	\$ 2,508,523
Miscellaneous	<u>24,694</u>	<u>19,322</u>
Total operating revenues	<u>2,647,642</u>	<u>2,527,845</u>
OPERATING EXPENSES		
Personnel services	498,218	463,830
Contractual services	1,081,284	636,593
Materials and supplies	214,287	206,683
Other services and charges	400,717	342,709
Gas purchased	263,304	225,421
Depreciation	372,630	388,106
Amortization	<u>1,806</u>	<u>1,806</u>
Total operating expenses	<u>2,832,246</u>	<u>2,265,148</u>
Operating income (loss)	<u>(184,604)</u>	<u>262,697</u>
NONOPERATING REVENUES (EXPENSES)		
Interest income	83,132	124,945
Interest expense	<u>(77,847)</u>	<u>(70,948)</u>
Total nonoperating revenues (expenses)	<u>5,285</u>	<u>53,997</u>
Net income (loss)	(179,319)	316,694
Retained earnings - October 1	<u>3,599,612</u>	<u>3,282,918</u>
Retained earnings - September 30	<u><u>\$ 3,420,293</u></u>	<u><u>\$ 3,599,612</u></u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,607,946	\$ 2,546,112
Cash paid to suppliers	(1,652,845)	(1,426,264)
Cash paid to employees	(503,919)	(453,152)
	<u>451,182</u>	<u>666,696</u>
Net cash provided by operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of assets	10,000	10,000
Acquisition and construction of capital assets	(143,042)	(124,279)
Principal paid on bonds payable	(68,040)	(71,443)
Interest paid on bonds payable	(78,433)	(75,285)
	<u>(279,515)</u>	<u>(261,007)</u>
Net cash used by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	83,206	124,945
	<u>83,206</u>	<u>124,945</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	254,873	530,634
Cash and cash equivalents - October 1	4,279,840	3,749,206
Cash and cash equivalents - September 30	<u>\$ 4,534,713</u>	<u>\$ 4,279,840</u>

CITY OF WAVELAND, MISSISSIPPI
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	<u>2003</u>	<u>2002</u>
RECONCILIATION OF OPERATING INCOME (LOSS)		
TO NET CASH PROVIDED BY OPERATING		
ACTIVITIES		
Operating income (loss)	\$ (184,604)	\$ 262,697
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	372,630	388,106
Amortization	1,806	1,806
Bad debt expense	15,018	8,892
(Increase) decrease in assets:		
Accounts receivable	(64,864)	(6,135)
Inventory	6,208	(26,692)
Prepaid expenses	(4,248)	(12,201)
Increase (decrease) in liabilities:		
Accounts payable	304,711	24,747
Accrued salaries	(2,992)	3,631
Compensated absences payable	(2,709)	7,047
Customer deposits	10,150	15,510
Accrued sales taxes payable	76	(712)
	<u>\$ 451,182</u>	<u>\$ 666,696</u>
 Net cash provided by operating activities		
RECONCILIATION OF CASH AND CASH		
EQUIVALENTS PER STATEMENT OF CASH FLOWS		
TO THE BALANCE SHEET		
 Unrestricted	<u>\$ 3,876,668</u>	<u>\$ 3,586,626</u>
Restricted:		
USDA Rural Development Project	30,769	30,203
Customer deposits	288,595	339,635
Revenue bond debt service account	31,187	30,927
Revenue bond cushion account	188,406	180,253
Revenue bond contingency account	59,400	55,956
Revenue bond depreciation account	59,688	56,240
	<u>658,045</u>	<u>693,214</u>
Total restricted		
	<u>\$ 4,534,713</u>	<u>\$ 4,279,840</u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
RESTRICTED ACCOUNTS REQUIRED BY REVENUE
BOND ORDINANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Bond Debt Service	Depreciation	Contingency	Cushion	Totals
BALANCES - OCTOBER 1, 2002					
Cash balances	\$ 30,927	\$ 56,240	\$ 55,956	\$ 180,253	\$ 323,376
REVENUES					
From operations	56,535	2,376	2,376	4,740	66,027
Interest earnings	625	1,072	1,068	3,413	6,178
Total revenues	57,160	3,448	3,444	8,153	72,205
EXPENSES					
Principal payments	44,000	-	-	-	44,000
Interest payments	12,900	-	-	-	12,900
Total expenses	56,900	-	-	-	56,900
BALANCES - SEPTEMBER 30, 2003					
Cash balances	31,187	59,688	59,400	188,406	338,681
Required balances to date - September 30, 2003	14,134	35,542	35,542	102,955	188,173
Statutory overage - September 30, 2003	\$ 17,053	\$ 24,146	\$ 23,858	\$ 85,451	\$ 150,508

See Independent Auditors' Report.

TRUST AND AGENCY FUNDS

Trust Funds are used to account for assets held by the City of Waveland, Mississippi in a trustee capacity. Agency Funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and/or other funds.

CITY OF WAVELAND, MISSISSIPPI
FIDUCIARY FUNDS
COMBINING BALANCE SHEET
SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	Expendable Trust Fund	Agency Fund	Totals	
	Unemployment Compensation	Accounts Payable Clearing Fund	(Memorandum Only)	
			2003	2002
ASSETS				
Cash	\$ 24,939	\$ 921	\$ 25,860	\$ 25,485
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Due to other funds	\$ -	\$ -	\$ -	\$ 118
Other accrued expenses	-	921	921	886
Total liabilities	-	921	921	1,004
FUND BALANCE				
Reserved for future benefit payments	24,939	-	24,939	24,481
Total liabilities and fund balance	\$ 24,939	\$ 921	\$ 25,860	\$ 25,485

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
EXPENDABLE TRUST FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(With Comparative Totals for September 30, 2002)

	Unemployment Compensation Fund	
	<u>2003</u>	<u>2002</u>
REVENUES		
Interest	<u>\$ 458</u>	<u>\$ 742</u>
EXPENDITURES		
Benefit payments	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>458</u>	<u>742</u>
Fund balance - October 1	<u>24,481</u>	<u>23,739</u>
Fund balance - September 30	<u><u>\$ 24,939</u></u>	<u><u>\$ 24,481</u></u>

See Independent Auditors' Report.

GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is used to account for fixed assets not used in proprietary fund operations.

**CITY OF WAVELAND, MISSISSIPPI
GENERAL FIXED ASSET ACCOUNT GROUP
SCHEDULE OF GENERAL FIXED ASSETS - BY SOURCE
SEPTEMBER 30, 2003**

GENERAL FIXED ASSETS

Land	\$ 800,004
Buildings	2,371,061
Improvements other than buildings	1,682,678
Machinery and equipment	2,486,532
Construction in progress	<u>1,479,025</u>

Total general fixed assets	<u><u>\$ 8,819,300</u></u>
----------------------------	----------------------------

INVESTMENT IN GENERAL FIXED ASSETS

General revenues	\$ 8,689,075
Donated property	<u>130,225</u>

Total investment in general fixed assets	<u><u>\$ 8,819,300</u></u>
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See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
GENERAL FIXED ASSET ACCOUNT GROUP
SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2003

Function and Activity	Total	Land	Buildings	Improvements Other Than Buildings	Machinery and Equipment	Construction In Progress
General government	\$ 1,348,810	\$ 167,550	\$ 405,166	\$ 14,597	\$ 79,460	\$ 682,037
Public safety	2,638,882	50,000	656,523	8,896	1,923,463	-
Public works	1,728,904	94,440	300,000	893,974	440,490	-
Culture and recreation	3,102,704	488,014	1,009,372	765,211	43,119	796,988
Total general fixed assets	<u>\$ 8,819,300</u>	<u>\$ 800,004</u>	<u>\$ 2,371,061</u>	<u>\$ 1,682,678</u>	<u>\$ 2,486,532</u>	<u>\$ 1,479,025</u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
GENERAL FIXED ASSET ACCOUNT GROUP
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY
SEPTEMBER 30, 2003

Function and Activity	General Fixed Assets 10/1/2002	Additions	Deletions	General Fixed Assets 9/30/2003
General government	\$ 862,164	\$ 486,646	\$ -	\$ 1,348,810
Public safety	2,521,971	116,911	-	2,638,882
Public works	1,696,773	32,131	-	1,728,904
Culture and recreation	2,108,403	994,301	-	3,102,704
Total general fixed assets	<u>\$ 7,189,311</u>	<u>\$ 1,629,989</u>	<u>\$ -</u>	<u>\$ 8,819,300</u>

See Independent Auditors' Report.

GENERAL LONG-TERM DEBT ACCOUNT GROUP

The General Long-Term Debt Account Group is a self-balancing group of accounts used to account for general long-term debt other than that recorded in the enterprise fund.

**CITY OF WAVELAND, MISSISSIPPI
GENERAL LONG-TERM DEBT ACCOUNT GROUP
STATEMENT OF GENERAL LONG-TERM DEBT
SEPTEMBER 30, 2003**

AMOUNT AVAILABLE AND TO BE PROVIDED**FOR DEBT SERVICE**

Amount available for bonded debt service and leases payable	\$ 434,962
Amount to be provided for retirement of bonds and capital leases payable	758,655
Amount to be provided for compensated absences	<u>49,200</u>
 Total amount available and to be provided for debt service	 <u><u>\$ 1,242,817</u></u>

LONG-TERM OBLIGATIONS

General obligation bonds	\$ 1,001,000
Obligations under capital leases	192,617
Compensated absences	<u>49,200</u>
 Total long-term obligations	 <u><u>\$ 1,242,817</u></u>

See Independent Auditors' Report.

OTHER SUPPLEMENTAL INFORMATION

CITY OF WAVELAND, MISSISSIPPI
SCHEDULE RECONCILING ORIGINAL AD VALOREM TAX ROLLS
TO FUND COLLECTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Assessed Value	Tax
ADJUSTED ASSESSED VALUATION		
Realty	\$ 43,409,056	982,130
Personal - other than auto	2,811,213	63,604
Public utilities	1,663,540	37,638
Personal - auto (remitted by County)	6,990,612	158,163
	<hr/>	<hr/>
Total City at 22.625 mills	54,874,421	1,241,535
Less: Homestead exemption allowed	(4,852,999)	(109,799)
	<hr/>	<hr/>
Total City	\$ 50,021,422	1,131,736
	<hr/> <hr/>	
Add: Actual homestead reimbursement		46,442
Prior year tax collections		13,249
Penalties and interest on delinquent taxes		7,653
Payment in lieu of taxes		6,864
		<hr/>
Deduct: County fees withheld		(22,375)
		<hr/>
Total to be accounted for		\$ 1,183,569
		<hr/> <hr/>

	Taxes	Homestead Reimbursement	Total
CREDITS			
Collections allocated to:			
General Fund	\$ 563,387	\$ 46,442	\$ 609,829
Recreation	172,514	-	172,514
Library	118,224	-	118,224
City Bond and Interest	237,633	-	237,633
Totals	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 1,091,758	\$ 46,442	1,138,200
			<hr/> <hr/>
Balance represented by:			
Unpaid property taxes			30,689
Unexplained difference			14,680
			<hr/>
Total accounted for			\$ 1,183,569
			<hr/> <hr/>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
SCHEDULE OF GENERAL LONG-TERM DEBT
SEPTEMBER 30, 2003

	Bonds-Leases Outstanding 10/1/2002	New Issues FYE 2003	Paid in FYE 2003	Bonds-Leases Outstanding 9/30/2003	Interest Paid FYE 2003	Maturities FYE 9/30/04		
						Principal	Interest	Total
GENERAL OBLIGATION BONDS								
1996 Series	\$ 930,000	\$ -	\$ 75,000	\$ 855,000	\$ 43,509	\$ 75,000	\$ 39,853	\$ 114,853
2002 Series	180,000	-	34,000	146,000	5,940	35,000	4,818	39,818
Total General Obligation Bonds	1,110,000	-	109,000	1,001,000	49,449	110,000	44,671	154,671
OBLIGATIONS UNDER CAPITAL LEASES								
Hancock Bank-Vehicles	48,886	-	36,613	12,273	1,588	12,273	460	12,733
Hancock Bank-Fire Trucks	189,329	-	46,197	143,132	7,603	48,387	5,413	53,800
Hancock Bank-Police Vehicles	-	41,642	4,430	37,212	432	13,580	895	14,475
Total Capital Leases	238,215	41,642	87,240	192,617	9,623	74,240	6,768	81,008
Total General Obligation Bonds and Capital Leases	<u>\$ 1,348,215</u>	<u>\$ 41,642</u>	<u>\$ 196,240</u>	<u>\$ 1,193,617</u>	<u>\$ 59,072</u>	<u>\$ 184,240</u>	<u>\$ 51,439</u>	<u>\$ 235,679</u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
SCHEDULE OF ENTERPRISE FUND BONDS
SEPTEMBER 30, 2003

	Bonds Outstanding 10/1/2002	New Issues FYE 2003	Paid in FYE 2003	Bonds Outstanding 9/30/2003	Interest Paid FYE 2003	Maturities FYE 9/30/04		
						Principal	Interest	Total
REVENUE BONDS								
1972 Sewer System	\$ 240,000	\$ -	\$ 44,000	\$ 196,000	\$ 12,900	\$ 46,000	\$ 10,535	\$ 56,535
1992 USDA Rural Development								
Combined Water, Gas, and Sewer System	1,195,730	-	24,040	1,171,690	65,533	25,395	64,177	89,572
Total Enterprise Fund Indebtedness	<u>\$ 1,435,730</u>	<u>\$ -</u>	<u>\$ 68,040</u>	<u>\$ 1,367,690</u>	<u>\$ 78,433</u>	<u>\$ 71,395</u>	<u>\$ 74,712</u>	<u>\$ 146,107</u>

See Independent Auditors' Report.

**CITY OF WAVELAND, MISSISSIPPI
COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2003**

Authorized Debt Limit 15 Percent Rule

2002 Tax roll	\$ 54,874,421	@ 15%	\$ 8,231,163
Bonded indebtedness			2,368,690
Less: Authorized exemptions			
1972 Sewer System	196,000		
1992 USDA Rural Development			
Combined Water, Gas, and Sewer System	<u>1,171,690</u>	<u>(1,367,690)</u>	
Present debt subject to 15% limit			<u>1,001,000</u>
Margin for further debt under 15% limit			<u><u>\$ 7,230,163</u></u>

Section 21-33-303 of Mississippi Code of Ordinances 1972 Annotated-Limitation of indebtedness as amended
April 8, 1985, March 30, 1987, October 1, 1989, March 1, 1992, and July 1, 1996.

No municipality shall hereafter issue bonds secured by a pledge of its full faith and credit for the purposes authorized by law in an amount which, when added to the then outstanding bonded indebtedness of such municipality, shall exceed either (a) fifteen percent (15%) of the assessed value of the taxable property within such municipality, according to the last completed assessment for taxation, or (b) ten percent (10%) of the assessment upon which taxes were levied for its fiscal year ending September 30, 1984, whichever is greater. In computing such indebtedness, there may be deducted all bonds or other evidences of indebtedness, heretofore or hereafter issued, for school, water, sewage systems, gas, and light and power purposes, and for the construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying the municipality's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case shall any municipality contract any indebtedness which, when added to all of the outstanding general obligation indebtedness, both bonded and floating, shall exceed either (a) twenty percent (20%) of the assessed value of all taxable property within such municipality according to the last completed assessment for taxation or (b) fifteen percent (15%) of the assessment upon which taxes were levied for its fiscal year ending September 30, 1984, whichever is greater. Nothing herein contained shall be construed to apply to contract obligations in any form heretofore or hereafter incurred by any municipality which are subject to annual appropriations therefor or to bonds heretofore issued by any municipality for school purposes or to contract obligations in any form heretofore or hereafter incurred by any municipality which are payable exclusively from the revenues of any municipally-owned utility, or to bonds issued by any municipality under the provisions of Sections 57-1-1 through 57-1-51, or to any special assessment improvement bonds issued by any municipality under the provisions of Sections 21-41-1 through 21-41-53.

See Independent Auditors' Report.

**CITY OF WAVELAND, MISSISSIPPI
COMPUTATION OF LEGAL DEBT MARGIN
SEPTEMBER 30, 2003**

SCHEDULE 9-D
(Continued)

Authorized Debt Limit 20 Percent Rule

2002 Tax roll	\$ 54,874,421	@ 20%	\$ 10,974,884
Total of all contracted indebtedness		\$ 2,561,307	
Less: Authorized exemptions			
1972 Sewer System	196,000		
1992 USDA Rural Development			
Combined Water, Gas, and Sewer System	<u>1,171,690</u>	<u>(1,367,690)</u>	
Present debt subject to 20% limit			<u>1,193,617</u>
Margin for further debt under 20% limit			<u><u>\$ 9,781,267</u></u>

See Independent Auditors' Report.

CITY OF WAVELAND, MISSISSIPPI
SCHEDULE OF SURETY BONDS
SEPTEMBER 30, 2003

<u>Official/ Position</u>	<u>Amount</u>
John Longo Mayor	\$ 50,000
Keith Mitchell Alderman	40,000
Richard Geoffrey Alderman	40,000
Santo Saucier Alderman	40,000
Brian Schmitt Alderman	40,000
Lisa Planchard City Clerk	50,000
Vacant as of September 30, 2003 Public Works Director	50,000
James Varnell Chief of Police	50,000
Paula Fayard Court Clerk	50,000
Robyn Carvin Purchasing Clerk	50,000
Sharon Jacobi Director of Human Resources	50,000
Police Department (other than Chief)	25,000 each
All Non-Statutory Employees	10,000 each

See Independent Auditors' Report.

**CITY OF WAVELAND, MISSISSIPPI
SCHEDULE OF INVESTMENTS - ALL FUNDS
SEPTEMBER 30, 2003**

PROPRIETARY FUNDS

.75% Certificate of deposit, dated April 7, 2003,
maturity date of October 4, 2003

\$ 100,000

See Independent Auditors' Report.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

May 26, 2004

Mayor and Board of Aldermen
City of Waveland, Mississippi
Waveland, Mississippi

We have audited the general purpose financial statements of the City of Waveland, Mississippi, as of and for the year ended September 30, 2003, and have issued our report thereon dated May 26, 2004, which was qualified because the City does not maintain subsidiary records documenting the existence and valuation of the City's assets accounted for in the General Fixed Asset Account Group. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Waveland, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no certain instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Waveland, Mississippi in a separate letter dated May 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Waveland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Waveland's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2003-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described as item 2003-1 is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City of Waveland in a separate letter dated May 26, 2004.

Mayor and Board of Aldermen
Waveland, Mississippi
May 26, 2004

This report is intended solely for the information and use of the Mayor and Board of Aldermen and others within the City and is not intended to be and should not be used by anyone other than these specified parties.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAMS
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

May 26, 2004

Mayor and Board of Alderpersons
City of Waveland, Mississippi
Waveland, Mississippi

Compliance

We have audited the compliance of City of Waveland, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2003. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs (Schedule II). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on each of the major federal programs. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Waveland, Mississippi complied in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-2 and 2003-3.

Internal Control Over Compliance

The management of the City of Waveland, Mississippi is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Mayor and Board of Aldermen
City of Waveland, Mississippi
May 26, 2004

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Aldermen of the City of Waveland, Mississippi, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

**CITY OF WAVELAND, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA or other Number	Pass- Through Grantor's Number	Program or Award Amount	Federal Expenditures
<i>U.S. Department of Housing and Urban Development</i>				
Passed through Mississippi Development Authority				
Community Development	14.228	00-379-ED-IF	\$ 499,776	\$ 421,584
Block Grants	14.228	00-379-PF-01	123,030	123,030
			<u>622,806</u>	<u>544,614</u>
Public and Indian Housing Drug Elimination Program	14.854	N/A	5,523	5,523
<i>Federal Emergency Management Agency</i>				
Subrecipient of Mississippi Emergency Management Agency				
Public Assistance Program	83.544	FEMA-1436-DR-MS	403,410	304,052
Assistance to Firefighters Grant Program for Fire Prevention	83.554	N/A	44,629	44,629
<i>Corporation for National and Community Service</i>				
Retired and Senior Volunteer Program	94.002	N/A	57,854	7,354
	94.002	N/A	58,608	46,100
			<u>116,462</u>	<u>53,454</u>
<i>U.S. Department of Transportation</i>				
Passed through Mississippi Department of Public Safety				
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	3-TA-354-1	13,900	12,807
<i>U.S. Department of Justice</i>				
Passed through Mississippi Office of Justice Programs				
Local Law Enforcement Block Grant	16.592	2002-LB-BX-2452	3,000	3,000
Total Federal Financial Assistance Programs			<u>\$ 1,209,730</u>	<u>\$ 968,079</u>

See accompanying notes to the schedule.

CITY OF WAVELAND, MISSISSIPPI
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2003

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is included in the federal grant activity of the City of Waveland, Mississippi and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2: NON-CASH AWARDS

The City did not receive any non-cash awards during the fiscal year ending September 30, 2003.

**CITY OF WAVELAND, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

SECTION 1: Summary of Auditors' Results**Financial Statements:**

- | | |
|--|------------------|
| 1. Type of auditors' report issued on the general purpose financial statements: | <u>Qualified</u> |
| 2. Material noncompliance relating to the general purpose financial statements? | <u>No</u> |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | <u>Yes</u> |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |

Federal Awards:

- | | |
|--|--------------------|
| 4. Type of auditors' report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | <u>No</u> |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |
| 6. Any audit finding(s) reported as required by Section_.510(a) of Circular A-133? | <u>Yes</u> |

7. Federal programs identified as major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	Department of Housing and Urban Development Community Development Block Grants
83.544	Federal Emergency Management Agency Public Assistance Program

- | | |
|--|------------------|
| 8. The dollar threshold used to distinguish between type A and type B programs: | <u>\$300,000</u> |
| 9. Auditee qualified as a low-risk auditee? | <u>No</u> |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section_.315(b) of OMB Circular A-133? | <u>No</u> |

**CITY OF WAVELAND, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

SECTION 2: Financial Statement Findings

2003-1 Finding

During previous audits, we observed that the City of Waveland has made significant progress towards establishing fixed asset records in accordance with guidelines established by the Mississippi Department of Audit. While the present fixed asset records contain a listing of all existing property, they do not include original (or estimated) cost for each item. In the event that property was destroyed by fire or other casualty, it would be to the City's advantage to provide property records for claims against insurance coverage. The City has contracted with an outside consultant to help in establishing fixed asset figures for those items for which there is no historical information. As of the date of this report, that process was not complete.

We recommend the following:

1. The City should create a comprehensive management directive defining the City's policy on capitalization of items and assignment of responsibility for the periodic maintenance of the system and procedures for updating, transferring and deleting items.
2. The City should make annual inspections to verify the continuing existence of all movable assets and to ensure that the records are being properly maintained.
3. The resulting physical inventory listing should be reconciled to the General Fixed Asset Account Group for general government assets and the depreciation schedule for enterprise fund assets. Differences should be resolved and adjustments should be made as necessary.

SECTION 3: Federal Award Findings

2003-2 Finding

Program: Public Assistance Program; CFDA No. 83.544; Federal Emergency Management Agency

Compliance Requirement: Davis-Bacon Act

The City entered into a construction contract, subject to the Davis-Bacon Act, that did not contain a requirement that the contractor comply with the requirements of the Davis-Bacon Act. Federal regulations require that non-federal entities include language in their construction contracts in excess of \$2,000 that require compliance with the requirements of the Act and with the Department of Labor regulations, 29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction."

Because no certified payroll reports were submitted, the contractors could have paid employees wages that were less than the prevailing wage rates without the City's knowledge.

The City's management and the contracted engineering firm were unaware of the requirements.

Recommendation

We recommend that the City design internal control procedures to ensure that all contracts subject to the Davis-Bacon Act include the requirements in the contract. In addition, the City should designate an employee who has had federal grant management training to review all bidding documents and construction contracts on projects involving federal funds for compliance with the Davis-Bacon Act and other requirements.

**CITY OF WAVELAND, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

SECTION 3: Federal Award Findings (Continued)

2003-3 Finding

Program: Public Assistance Program; CFDA No. 83.544; Federal Emergency Management Agency

Compliance Requirement: Procurement and Suspension and Debarment

The City entered into a construction contract with a contractor who did not certify that the contracting company and its principals were not suspended or debarred. Federal regulations require that contracts over \$100,000 contain the required provision from 49 CFR Part 29, "Government Debarment and Suspension (Nonprocurement)."

The City was unaware of the requirement. The State agency administering the program did not consider the certification necessary for this project.

As determined during our audit testing, the contractor was not on the list of excluded parties.

Recommendation

We recommend that the City design policies and procedures to ensure that all contracts subject to suspension and debarment provisions include such requirements in the contract. As stated above, the City should designate an employee who has had federal grant management training to review all bidding documents and construction contracts on projects involving federal funds for compliance with the suspension and debarment requirements as well as other requirements of the grant.



John Thomas Longo, Mayor

August 6, 2004

Mr. Steve Dockens &
Ms. Gayle Reddien
c/o Alexander, Van Loon,
Sloan, Levens, PLLC, CPA'S
9490 Three Rivers Road
Gulfport, MS. 39503

RE: City of Waveland
Corrective Action Plan
Audit Period 9/30/2003

The corrective actions proposed by the City of Waveland, from the May 26, 2004 Schedule of Findings & Questioned Costs for the year ended September 30, 2003, are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

- 2003-1 The City will work to acquire a written comprehensive management directive defining the City's policy on capitalizing items, including defining the responsibility for the periodic maintenance of the fixed asset records, specifically additions, transfers, and deletions. Included in the defined responsibilities, the City will specify that those parties responsible for the periodic maintenance shall also make annual inspections to verify existence of all moveable assets and correctness of written records. The resulting records received from the various departments will be reconciled to the General Fixed Asset Account Group (via computer software) by the purchasing/accounts payable agent or other member of the City Clerk's office.
- 2003-2 The City will endeavor, in the future, whenever Federal monies are involved, have the City Attorney ensure that the construction contract(s) related to any projects affiliated with these Federal monies, comply (through contractual

language) with the Davis-Bacon Act; more specifically requiring the contractor submit through the Public Works Administrator and/or City Engineer (who shall ensure completion of project work) certified payroll reports. Further, the City shall, whenever Federal monies are involved, designate via contract, an administrator of the grant to review the bidding documents, construction contracts, etc... for compliance with the Davis-Bacon Act and other Federal requirements.

2003-3

The City will in the future, for contracts over \$100,000, in accordance with 49 CFR Part 29, ensure through the City Attorney's review and approval with contractual language, that all contracts subject to suspension and debarment provisions include such requirements in the contract language. Here again, the entity/individual designated by contract, as grant administrator on the project, shall be responsible for review of all bidding documents and construction contracts on projects involving Federal funds for compliance with the suspension and debarment requirements as well as other requirements of the grant.

Respectfully,

John Longo,

Mayor

And Lisa B. Planchard,

City Secretary





**INDEPENDENT AUDITORS' REPORT ON MUNICIPAL COMPLIANCE WITH
STATE OF MISSISSIPPI DEPARTMENT OF AUDIT REQUIREMENTS**

May 26, 2004

Honorable Mayor and Board of Aldermen
City of Waveland
Waveland, Mississippi

We have audited the general purpose financial statements of the City of Waveland, Mississippi, as of and for the year ended September 30, 2003, and have issued our report thereon dated May 26, 2004, which was qualified because the City does not maintain subsidiary records documenting the existence and valuation of the City's assets in accordance with auditing principles generally accepted in the United States of America. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures, as we considered necessary in the circumstances.

As required by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with these requirements. Accordingly, we do not express such an opinion.

In connection with our audit, nothing came to our attention that caused us to believe the City of Waveland, Mississippi is not in compliance with the requirements of the Office of the State Auditor, as set forth in the Municipal Compliance Questionnaire, except as set forth in the following paragraphs:

Fixed Assets Records

The City's fixed assets are not properly accounted for as required by Mississippi Law and the Mississippi Audit and Accounting Guide.

Surety Bonds

Aldermen of the City were not sufficiently bonded during the year, according to the requirements of Mississippi Code Section 21-17-5.

Procurement

Mississippi State Procurement Law requires copies of solicitations for bid to be submitted to the Mississippi Contract Procurement Center. We noted that none of the bid specifications for contracts entered into during the year were submitted as required.

We also noted two construction contracts, both of which were with the same vendor, where the City could not provide evidence that a certificate of insurance had been obtained, as is required by purchasing laws.

This report is intended solely for the information and use by the Mayor and Board of Aldermen and others within the City and is not intended to be and should not be used by anyone other than these specified parties.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi



May 26, 2004

Honorable Mayor and Board of Aldermen
City of Waveland
Waveland, Mississippi

In planning and performing our audit of the general purpose financial statements of the City of Waveland for the year ended September 30, 2003, we considered the City's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 26, 2004 on the financial statements of the City of Waveland.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is solely for the information and use of the Board of Aldermen, management, and others within the City.

We appreciate the opportunity to be of service to the City of Waveland and express our gratitude to the employees for their assistance in conducting our examination.


ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

SUMMARY OF MANAGEMENT LETTER COMMENTS

September 30, 2003

State Legal Compliance

Surety Bonds

Due to an apparent oversight, the City did not adequately bond its aldermen as required by Mississippi State Code Section 21-8-23. We suggest that management immediately increase the coverage on its aldermen, and carefully review the policies annually upon renewal to ensure that the coverage is sufficient.

Procurement

During our audit, as in the prior year, we noted that the City did adhere to all of the purchasing requirements of Mississippi State Code Section 21-7-13. The City did not submit proposals for contracts to Mississippi Contract Procurement as required. The purchasing clerk should include submission to Mississippi Contract Procurement as a step in the procurement process for all City contracts subject to the requirement.

We also noted two contracts with the same vendor where no record could be found that the vendor had provided a certificate of insurance coverage, as required by state law. We suggest that, with every new contract issued by the City, appropriate personnel review all documents related to procurement to ensure that all state requirements have been met. Additionally, this will reduce the potential risk to the City related to contracting with a vendor that does not have adequate insurance coverage. The City may want to consider developing a standard checklist to be used to evaluate each contract for all applicable requirements.

Cash

Bank reconciliations

During our procedures, we noted that bank reconciliations of one of the City's component units, the Retired Senior Volunteer Program of Hancock County (RSVP), were being performed incorrectly. Due to the date of the reconciliation differing from the closing date of the bank statement, reconciling items were incorrectly included in calculating actual ending balances throughout the year, including at year end. Due to this error, cash balances as reported in interim data were incorrect. It is vital that any organization have an accurate cash count at all times in order to properly manage cash flow. We suggest that the person performing the reconciliations for RSVP be properly trained to eliminate this problem in the future. Additionally, the City Clerk should review these reconciliations, along with supporting documentation of the bank statements and canceled checks, monthly for accuracy.

SUMMARY OF MANAGEMENT LETTER COMMENTS

September 30, 2003

Cash (Continued)

Cash management - grants

As of September 30, 2003, the City had incurred and paid reimbursable grant expenses of approximately \$39,750, but did not request reimbursement until at least six months later. We suggest that all grant expenses paid and eligible for reimbursement be included in a request for reimbursement at the earliest possible date after they become significant. By waiting, the City has less cash available for other uses.

We noted that fees paid to an outside grant administrator related to two grants exceeded the amount for which the City could hire a full time grant administrator. While grant activity has been more limited in prior years, it is expected that even more grant funding will be pursued in future years. As long as there is the expectation of grant activity sustaining its current level, the City may want to consider hiring an in-house grant administrator. Such a decision would not only save money, but could benefit the City in other ways, also. For example, since other City employees currently still handle some grants, this would also alleviate some of the duties of those other staff members, so that they would be more available for their primary duties. This is especially important as grant activity increases and the duties related to those grants become more complex and cumbersome to administer. A staff grant administrator would also have more knowledge of specific grant requirements, making it easier and more likely that the City would remain compliant with all requirements. Additionally, the grant administrator could be given the responsibility of researching additional grant funding for the City to utilize.

Accounts Receivable

As in the prior year, we again noted that the general ledger and the subsidiary accounts receivable ledger of the utility department were not being reconciled regularly. Without reconciling the two ledgers monthly, any posting or other errors may go unnoticed for long periods of time. We noted both in the current and prior year audits that this had occurred. Such delays make identifying errors more difficult later, and it results in inaccurate interim financial information upon which management has to rely. The general and subsidiary accounts receivable ledger should be reconciled monthly, at a minimum, with reconciliation after each billing cycle even more useful.

Debt Service Fund

In reviewing the results of the City's operations for the year ended September 30, 2003, we noted that the fund balance of the debt service fund has increased in the past two fiscal years due to transfers in from other funds. If financing is available from other funds, the City may want to consider reallocating its millage among funds so that more revenues are allocated to the general fund, taking into consideration expected future needs. If additional debt service funding is needed, revenues can be transferred to the debt service fund from the general fund, but the reverse is not true. Once millage is allocated to debt service, those revenues must be used for debt service.

SUMMARY OF MANAGEMENT LETTER COMMENTS

September 30, 2003

Capital Outlay

The September 30, 2003 financial statements also illustrate the large deficiency of revenues over expenditures for the City's general fund during the year ended September 30, 2003 in the amount of \$380,150. This is largely due to the substantial capital expenditures of approximately \$1,058,000. We caution the City against undertaking such capital projects that might endanger the financial well being of the City by causing such deficiencies. The City may wish to consider increasing millage rates, or reallocating the current millage, as discussed above.

Comp Time Policy

The City's policy regarding comp time indicates that it must be used within the two-week pay period following the period in which it is earned. However, we noted several employees who have accumulated comp time at year-end that does not comply with this policy. Additionally, only non-administrative employees are eligible to be paid for unused comp time, although this policy appears to be unclear to employees based on their submission of comp time records.

We recommend that the City clarify its policy by issuing a memo to all employees. The City should also consistently apply policies adopted. Otherwise, if the policy is no longer appropriate or the City wishes to change a particular policy, amendments should be made in accordance with the City's procedures for initiating such changes. We also suggest that the City consult with legal counsel regarding the policy, taking into consideration federal laws and related issues, as well. Otherwise, the City could subject itself to potential liability.

Fixed Assets Records

Existing fixed assets

The City has not maintained adequate accounting procedures and records for fixed assets that are essential to the protective custody of governmental property. In addition to protective custody of the City's property in its entirety, a good system of fixed asset accounting permits the fixation of responsibility for custody and proper use of specified fixed assets on individual departments and personnel. Also, in the event that property was destroyed by fire or other causes, it would be to the City's advantage to provide property records for claims against insurance coverage.

SUMMARY OF MANAGEMENT LETTER COMMENTS

September 30, 2003

Fixed Assets Records (Continued)

Existing fixed assets (continued)

It is our understanding that the City is, with the help of a consultant, in the process of developing a detailed inventory of its fixed assets and establishing procedures for posting fixed asset acquisitions and deletions to the property records. After such inventory is available, periodic checks as to existence of fixed assets should be made by individuals who are independent of those primarily responsible for the custody of the assets. Historical cost or estimated historical cost for fixed assets should be provided for each asset addition. In addition, a comprehensive management directive, defining the City's policy on capitalization of items and assignment of responsibility for the periodic maintenance of the system and procedures for updating, transferring and deleting items, should be prepared.

Construction in progress

We also noted during our audit that the City does not maintain a schedule of construction in progress at any given time. Although construction in progress in prior periods has been much smaller in scope, the current ongoing projects are numerous and substantial. In order to promote better record keeping for fixed assets, to properly reflect the value of construction in progress at any given time, and to aid in the audit process, we suggest that the City maintain a schedule of all projects currently under construction. This schedule should be updated monthly, at a minimum, or whenever payments are made for a project. As it appears that the City plans more and larger projects in the future, this will become more useful as well as more necessary for accurate financial reporting.

GASB 34 Implementation

The City will be required to implement the new Governmental Accounting Standards Board (GASB) Statement 34 Reporting Model effective October 1, 2003, which is effective for the fiscal year ending September 30, 2004. The focus of the new reporting model requires that governmental entities report the operations of all funds on an economic measurement basis. In other words, government entities will be required to report essentially the same as profit-oriented businesses. This means that the City will be required to record and depreciate all fixed assets that have a remaining useful life as of October 1, 2003. While the City has been depreciating all fixed assets included in its enterprise funds, it will also be required to depreciate the assets included in the General Fixed Asset Account Group. The retroactive effect of this implementation will apply to all fixed assets dating back twenty years.

The City will need to determine the economic lives of all the fixed assets not currently being depreciated and calculate the accumulated depreciation as of October 1, 2003 as though the assets had been depreciated since acquisition. We recommend the City make every effort to begin dedicating resources needed to make this implementation as smooth a transition as possible.

SUMMARY OF MANAGEMENT LETTER COMMENTS

September 30, 2003

GASB 34 Implementation (Continued)

Additionally, the required management, discussion and analysis letter, which will be included in the fiscal year 2004 audit report and is the responsibility of the City, will include comparing current financial information to the prior year, which in this case will be the fiscal year 2003 information. Although comparability to prior year information is not required in the year of implementation, the City may want to consider early implementation of GASB 34. This can be accomplished by converting the September 30, 2003 financial statements to the new reporting model immediately after the fiscal 2003 audit is completed and the report issued.

The implementation of GASB 34 will have a significant affect on the City's audit in both the year of implementation and subsequent fiscal years. GASB 34 will require a completely new set of government-wide financial statements (prepared by the auditor) in addition to the current fund level financial statements, a management discussion and analysis (prepared by the City with assistance from the auditor), and conversion of existing account balances to allow for full accrual accounting. Therefore, the additional time and fees associated with this conversion for other governmental entities that have already implemented these new requirements is ranging between 20% and 30% for the year of implementation and between 10% and 15% for the years subsequent to implementation. The majority of the additional time in the year of implementation will be related to the development of the new financial reporting model financial statements, along with reconciliations to the current reporting model. Additional audit procedures will be necessary for the year of implementation, as well as all subsequent years.

Fraud Risk Assessment

The recent publicity concerning frauds involving large companies has focused attention on what an entity can do to protect itself from loss due to fraud. Fraud occurs in entities of all sizes. For small entities, one of the primary fraud risks is the risk of misappropriation of assets (theft), particularly fraudulent cash disbursements. The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the City perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the City's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the City that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the City, its environment, and its processes. The assessment process should consider the City's vulnerability to misappropriation of assets.

SUMMARY OF MANAGEMENT LETTER COMMENTS

September 30, 2003

Fraud Risk Assessment (Continued)

Once areas vulnerable to fraud have been identified, a review of the City's systems, procedures, and existing controls relating to the identified areas should be conducted. The City should consider what additional controls need to be implemented to reduce the risk of fraud.

When assessing the City's internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered. For example, instead of trying to prevent fraud, the City may choose to use more detective controls to ensure that the fraud is identified and corrected in a timely fashion. Because detective controls are performed after the original transaction occurs, they may be easier to implement and more cost effective. However, fraudulent activity can cost the City more than the monetary losses, as there is also the cost of investigating the fraud.

We would be pleased to provide more information about performing a risk assessment or assist management in performing one.

SAS 99

Effective for the fiscal year beginning October 1, 2003, implementation of Statement on Auditing Standards No. 99 (SAS 99), *Consideration of Fraud in a Financial Statement Audit*, will increase the scope of the City's audit. This auditing standard was issued in direct response to the much publicized auditing scandals related to Enron, Worldcom, etc. and is expected to have one of the most significant impact on audits in many years. This new standard will require that we actually design audit tests to search for potential fraud. Prior to the issuance of this standard, all of our tests were designed to determine whether the significant recorded amounts appear to be fairly stated and, if we identified fraud based on that work, we were required to report it. Accordingly, fraud detection was secondary to the primary purpose of the test. Therefore, materiality limits have typically been set on all audits to determine what is considered significant for testing. As a result of SAS 99, we will be required to design and perform tests to look for fraud, even if the account and/or amount is not "material" (significant) to the financial statements. In addition, SAS 99 will also require us to perform inquiries of client personnel specifically to determine if they have knowledge of potential fraud. Some of the personnel included in such interviews will not be the personnel that we typically deal with during an audit to get financial information needed for our audit procedures. As a result, we expect the requirements to increase the amount of detail testing currently being done within most audits and therefore, to increase the amount of audit time by as much as 10%.